2/5/79 [3]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 2/5/79 [3]; Container 105

To See Complete Finding Aid:

http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

THE SECRETARY OF COMMERCE WASHINGTON, D.C. 20230

December 21, 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Economic Development Reorganization

You will shortly receive the PRP staff analysis on the reorganization of development assistance programs. I want to share with you my concern about that analysis. Your decision on this matter obviously has major implications not only for the future of Federal economic development, but also for the Administration's work agenda during the coming year.

The preferred option described in the paper I received from Harrison Wellford last Friday evening recommends that various economic and community development programs, including those now managed by the Commerce Department, be combined in a new Department of Development Assistance. The new Department would be responsible for economic development, community development, and housing, based on the assumption that these programs are "...highly interrelated and must be addressed in a coordinated way."

This conclusion reflects a critical misconception with respect to Federal programs. Although better coordination is required, projects funded by the Economic Development Administration are materially different from Community Development Block Grant and Farmers Home projects.

The very essence of economic development is to stimulate business investment to create or save jobs and increase tax bases in depressed or threatened areas. EDA industrial parks, port development, and access roads to industrial sites accomplish this because they respond directly to the needs of private employers. CDBG and housing expenditures, on the other hand, address an entirely different need -- the social welfare of communities and their residents. This fundamental distinction will be lost to the detriment of economic development if it becomes part of a department which considers local elected officials, and not the private sector, as its constituency.

My disagreement with the PRP preferred option, therefore, stems from the conviction that economic development goals are closely linked to the broad economic issues. The success of local economic development is directly related to economic realities -- inflation, competitive advantage, productivity and trade balances -- all matters addressed by the Department of Commerce.

I believe this relationship is important now and is likely to become even more critical in the future. I cannot understand the argument that community development and housing programs are more important to private sector investment decisions than these economic issues. In fact, there would appear to be far more logic in a reorganization approach that linked economic development assistance to employment and training, transportation, or environmental programs than to community development and housing activities.

On November 22, I transmitted to Stu Eizenstat and Jim McIntyre an alternative proposal for increasing the effectiveness of economic development assistance. That approach would establish a common, local-based planning framework for all Federal economic development programs, as well as uniform area eligibility criteria to insure proper targetting of funds. It would not require major reorganization, although it would place the National Development Bank in Commerce. Such a base of operations would satisfy urban and rural constituencies and would link the Bank's private sector programs to existing programs providing risk capital for businesses.

These and other components of our proposed alternative would be accomplished through reauthorization of the Public Works and Economic Development Act of 1965, which establishes EDA and expires at the end of the current fiscal year. The reauthorization would also serve as a mechanism for creating the National Development Bank.

Another positive characteristic of the approach we propose is that it can be achieved. Congress has always supported the EDA programs and can be expected to react favorably to a reauthorization proposal of this nature. In addition, the proposed approach will ameliorate rather than add to existing urban vs. rural and other regional tensions. It will minimize Congressional Committee jurisdictional squabbles, which could handicap the pursuit of other important legislation.

I would appreciate having the opportunity to discuss these and related concerns with you as soon as possible.

Juanita Juanita M. Kreps

January 12, 1979

MEMORANDUM FOR JAMES T. McINTYRE

FROM

JUANITA M. KREPS

SUBJECT

REORGANIZATION: THE NEW OPTION THREE

I have reviewed the new Option III with my staff. I am pleased by the very affirmative acknowledgement of Commerce's essential role in both economic development and trade, as generally implied by the functions and agencies which would be moved to the Department of Trade and Business Development under this option. We have a critical role in both areas, and if we reorganized in an appropriate manner under the suggested rubric, we would be stronger.

Unfortunately, some of the <u>specifics</u> contained within Option III do not match the imaginative concept in which they are embodied. The past few weeks have made abundantly clear how complex our organizational challenges are in the areas of both economic development and trade. Prepared so rapidly, Option III simply does not manage that complexity well. As I will make clear below, the hasty preparation of this new alternative affords us a less suitable organizational approach for domestic economic development than that already available to us in Option II.

At the same time I am quite encouraged by your trade discussion. Option III makes a useful start at designing a coherent and integrated Federal approach to export promotion and to linking domestic with international business development. Recognition of the need for a department with lead responsibility for trade matters is long overdue. Should the President decide to move forward in this area, I would happily volunteer the full resources of my Department toward the immediate development of a sound, detailed, and politically feasible trade development package.

It is primarily on the basis of the misunderstandings of domestic economic development inherent in Option III that I cannot support its economic development components. In fact, relative to Option II in the January 5 decision package, the new Option III represents a deterioration in the proposed organization of the function. The proposal to divide the grant and loanmaking components of the government's economic development program would be a major

setback to the consolidation and improvement of Federal economic development. This option has a number of major deficiencies, which I request be included in the disadvantage section of the decision memo:

- It fails to recognize that public economic development involves the use of a number of closely related programs and tools to provide a critical mass of direct and indirect assistance to businesses in order to retain or attract their investment in targetted distressed areas. These tools include: planning assistance to states, local governments and other public bodies to improve their ability to devise and implement business development programs; technical assistance to both the public sector and businesses; public infrastructure grants to establish the immediate physical conditions for business investment; and direct financial assistance to businesses. All of the above are incentives to the private sector which combine to reduce the risk to business investors in economically distressed areas. Option III would sever business loans from all other economic development assistance.
- o EDA uses both grants and loans to provide <u>direct</u> assistance to businesses, e.g. technical and management assistance grants to firms, Title IX grants to capitalize state and local revolving business loan programs, and business loans and loan guarantees.
- o The Administration's own National Development Bank (NDB) proposal insists on the necessity of combining economic development grants and business loans in one incentive package. Option III accepts this point regarding the NDB but rejects it, illogically, for the entire Federal economic development program.
- o Option III would leave the Federal government with a community development program, a business finance program, but no economic development program. This option, as with Option I, fails to distinguish between community development programs concerned with public facilities and neighborhood improvements, and public works grants to provide the infrastructure needs of private businesses. The Federal economic development program will not be improved by collapsing all but its business loan component into community development.
- o To divide economic development assistance along public and private sector lines is at odds with the Administration's objective of facilitating a public/private partnership in local economic development. Option III will magnify the problems of public/private

sector coordination.

Moreover, if indeed the objective is to place private assistance and public assistance into separate departments, the UDAG program, which is directly tied to the private sector, should be placed into the new Department of Trade and Business Development. UDAG requires a private commitment as a prerequisite to a grant and should be included in a business development program.

- o Option III would dismember the program of the Economic Development Administration which has effectively delivered comprehensive economic development assistance. As the attachment to the memorandum indicates, EDA has integrated all of its grant and loan tools either in packages or projects or in sequences of investments over a number of years. EDA has taken additional steps under this Administration to strengthen its provision of customized packages of economic development assistance including public works grants and business finance assistance.
- o Option III would fragment further Federal assistance to rural areas rather than achieve the consolidation which is the raison d'etre for reorganization. At present, rural communities must go to USDA for housing, community development and business loans, and to EDA for grants and loans. Under Option III, rural communities would have to deal with three agencies rather than two USDA for housing, HUD for public works grants and DoC for business loans.
- o Option III would reverse the traditional roles of the Public Works and Banking Committees. The Banking Committees, whose expertise and interest lie primarily in loan programs, would oversee public works in a HUD-based department. The Public Works Committees would be left with authority over loan programs.

This Administration can continue its accomplishments in the field of economic development by recognizing the distinctive character of economic development and the need for a core cluster of closely related programs and tools. To divide economic development arbitrarily between grants and loans is to discard the opportunity to establish an effective, comprehensive Federal economic development program based on the integrated program of EDA. Thus, the Department of Commerce must reject the economic development portions of Option III as presently drafted.

In order to state its objections to the economic development portions of Option III the Department of Commerce asks that the following paragraph be included in the decision memorandum to the President:

Commerce views the economic development portions of Option III as unacceptable because they would arbitrarily sever business finance assistance programs from all of the other elements of a comprehensive Federal economic development program, including management assistance and public works grants for businesses, and economic planning assistance to state and local governments. The proposal contradicts the Administration's own National Development Bank proposal which recommends the combination of economic development grants and business loans in one incentive package to business investors. than consolidating economic development assistance the proposal would further fragment it. this option would dismember the effective and experienced Economic Development Administration program of grants and loans, and leave the Federal government with community development and business finance programs and no economic development programs. addition, by dividing economic development assistance between the public and private sectors Option III would obstruct the Administration's objective of a public/private partnership for local development. This Administration can increase its accomplishments in the field of economic development by recognizing the need for a core cluster of closely related business development programs and tools as proposed in Option II.

In summary, Option III cannot be supported as written. Moreover, as noted in the January 9 memorandum to you, while we preferred the Option II approach to economic development, the January 5th decision package was generally deficient in its trade discussion. What is needed, therefore, is a reorganization option which combines the strong components of both Option II and Option III. Specifically:

- o We believe that reorganization should properly stress the trade promotion role, as noted in Option III, which should be linked organizationally with an economic development program.
- We favor the strong and practical integration of economic development functions in Commerce, as in Option II.

- o The result would be described as the Department of Commerce, a successful hybrid of Options II and III.
- O Recognizing the incompleteness of the trade discussion, we will be pleased to work hand-in-hand with OMB to develop the trade portion of the package for early submission to the Congress.

I should note, finally, that the proposal to incorporate the Small Business Administration in the Department of Commerce is reasonable, but should be approached cautiously. The Administration must be able to assure the Congress that SBA's particular focus will not become blurred by reorganization. Moreover, the timing of any SBA move would have to be coordinated with the White House Conference on Small Business.

Attachment

MEMPHIS, TENNESSEE

Four separate programs are tied closely together in Memphis to assure coordinated revitalization of the downtown area. A continuing 302(a) Planning effort formed the foundation for a comprehensive development strategy (CEDS). Springing from formulation of the CEDS, the Beale Street Development Corporation (BSDC), a minority owned development corporation, and the owner of the historic Peabody Hotel were identified. The BSDC had been interested in upgrading the Beale Street historic district in the near vicinity of the hotel.

EDA responded by inviting a \$2 million <u>Title I Public Works</u> grant for the Beale Street Redevelopment Project. From this grant EDA is setting aside \$25,000 for the BSDC to hire staff for executing the project in partnership with the City. An additional \$35,000 <u>301 Technical Assistance</u> grant has been approved to assist the BSDC in tenant selection and promoting opportunities for minorities and disadvantaged as the project is executed.

Finally, a 90% Title II Loan Guarantee of a \$10 million loan to renovate the Peabody Hotel is being processed for approval. When renovated, the hotel is expected to attract guests to the area who will represent a significant proportion of customers for the restaurants, shops, and entertainment facilities that will be developed through Title I efforts at nearby Beale Street.

Brooklyn, New York

The Commerce, Labor, Industry Corporation of Kings (CLICK) is a non-profit organization which was formed in 1966 to develop a strategy which responded to the closing of the Brooklyn Navy Yard.

EDA first provided technical assistance to Fordham University and CLICK to study the effects of the base closing, to plan for conversion of the yard to an industrial complex and to establish a substantial marketing program.

During the next eight years, while continuing its technical assistance, EDA made several loans to firms locating in the Navy Yard for a total of nearly \$16 million, including one for \$11.25 million to Seatrain Shipbuilding Corporation. At the same time, EDA made a \$948,000 public works grant to CLICK to convert three vacant buildings to industrial use.

EDA's most recent program to linking its technical assistance and "hardware" dollars to business financing was a series of two loans, in 1975 and 1976, for \$2.5 million to a major dry dock located in the yard.

Packaging of EDA program assistance has resulted in the creation of several thousand jobs, 70% of which are for minorities and area residents.

COOS-CURRY-DOUGLAS ECONOMIC DEVELOPMENT DISTRICT, OREGON

Coos-Curry-Douglas (CCD) Economic Development District has been an EDA district since 1971, and as such has been a recipient of 301(b) planning funds each year. The area, which has developed a sophisticated and capable planning staff, has used EDA monies to conduct a series of planning activities and economic base analyses which made it possible for EDA to effectively invest Technical Assistance, Public Works and Business Development dollars. The CEDS demonstration has made it possible to strengthen this area even further.

The area's planning process has allowed for feasibility studies to analyze the potential for Public Works investments. EDA's investment this year is approximately \$1,400,000. The Roseburg Airport Industrial Park site, which will be developed through the use of approximately \$365,000 of the Public Works funds, builds upon an EDA Technical Assistance feasibility study of the area which was completed in 1977. Two other infrastructure investments, which will be provided out of approximately \$235,000 of Public Works funds, will support the expansion of new and existing industries through the improvement of industrial sites. This effort is being further supported through a Revolving Loan Fund program for \$720,000 of EDA funds to assist local businesses.

PORTLAND, OREGON

Since EDA participation in the City of Portland was initially proposed by the Mayor, an EDA Special Impact Area and a city-wide Redevelopment Area have been designated, and a city-wide 302(a) planning process has been effectively set in place. Public Works, Business Development and Title IX investments build upon not only the 302(a) process, but also past and present Technical Assistance efforts.

As a result of the CEDS demonstration, a total of \$12,080,000 is being invested in the City by EDA. Approximately \$8,000,000 in Public Works funds is being invested in the Northwest Industrial area, the Swan Island Industrial Park, the Rivergate Industrial District and the Central Eastside The investments are concentrated within target areas identified through Technical Assistance feasibility and marketing studies, as well as 302(a) planning activities. To strengthen these efforts, a City-wide Revolving Loan Program has been established with \$1,625,000 of funds to provide business assistance loans to small, existing firms within the City. In addition, purchase of land and further feasibility studies will be accomplished through the use of Technical Assistance monies to strengthen the City's transportation system and build upon past Public Works investments in the street network. Finally, Title IX Long Term Economic Deterioration funds of approximately \$1,983,000 will be used in the Union Avenue Reinvestment Program and Northwest Industrial area to further support Business Development and Public Works investments through Industrial parks land assembly, site improvement and packaging of assistance to private users/ developers.

NORTHERN MAINE REGIONAL PLANNING COMMISSION

In September, 1978, EDA extended a \$4.1 million direct working capital loan to American Kitchen Foods to enable the company to keep open potato processing plants in the towns of Caribou and Presque Isle, Maine, growth Centers of the Northern Maine Regional Planning Commission (NMRPC) an EDA funded Economic Development District. Between 5000 and 6000 jobs will be saved by the loan.

The EDA loan is integrally related to other EDA activity in the area. NMRPC, to save these two plants and others from closure by EPA because they were not in compliance with EPA clean water standards, negotiated a \$5 million EDA Title IX Implementation Grant to build a 5 mile sewer intercepter line between Caribou and Grimes Mill, Maine.

The Title IX grant provided the American Kitchen Foods plants equipment for a bio-kinetic pre-treatment process for their sewerage which they are using on an interim basis. Once the sewer line is finished and EPA has completed a secondary treatment facility at Grimes Mill, they will build connecting sewer lines and will dispose of their waste materials in a manner that meets EPA standards.

State of West Virginia

When Rockwell International announced that it was closing the Building Components Division (BCD) in Morgantown, West Virginia - with the subsequent loss of 830 jobs - EDA made a \$4.7 million grant under its Special Economic Development and Adjustment Assistance Authority (Title IX) to the State of West Virginia.

EDA's participation is part of &16.2 million package in which the State and County are contributing \$1.5 million and the private sector \$10 million. The funds will be loaned by the State to the Sterling Faucet Company, which will then purchase and operate the Rockwell facility, thereby saving more than 800 jobs. Loan payments will be placed in a revolving fund account so that the State is able to make new loans for development and adjustment purposes, since the State has identified 12 major employers whose operations may be in jeopardy and whose shut-down would result in the loss of 20,000 jobs.

Lynn, Massachusetts

This is an example of linking EDA's business assistance programs to its planning/technical assistance efforts under the Title IX authority.

The City of Lynn has been experiencing a steady decline over the last 10 years, triggered primarily by the closure of 15 footwear firms and the reduction in manufacturing operations at a General Electric Plant. More than 8,000 jobs have been lost in the last decade, and the population has declined steadily. The footwear industry has been hard hit by imports; 740 shoe workers are presently certified as trade-impacted.

To assist 2 trade-impacted shoe firms which faced potential shutdown, EDA provided two direct loans totalling \$1.3 million so that those businesses can modernize their facilities and expand sales - and protect the jobs of workers.

At the same time, EDA made a \$60,000 grant to the City of Lynn under its Special Economic Development and Adjustment Assistance Program (Title IX). The City developed an economic adjustment strategy which addresses the immediate needs of Lynn's unemployed, the stabilization and diversification of Lynn's industrial base, and the feasibility of a footwear collaborative to strengthen the viability of footwear firms in Lynn, and the feasibility of downtown redevelopment.

As follow-up to the strategy, EDA is committed to providing an implementation grant to the City by which several components of the strategy can be developed - refurbishment of downtown buildings and establishment of the collaborative.

Brooklyn, New York: This development is an example of the coordinated use of Technical Assistance, Public Works grants and Trade Adjustment Assistance - Business Loans. for the conversion of an obsolete, six-story industrial loft building into a vertical industrial park by the Williamsburg Industrial Development Enterprises (WIDE), a non-profit community based development corporation. The reuse program necessitated technical assistance for the development of WIDE's capacity to market the facility (\$109,000), \$3.655 million of public works grants to rehabilitate the building and a Trade Adjustment loan of \$650,000 for assistance to a firm to locate in the facility. This comprehensive approach has resulted in the creation and/or retention of 1,200 jobs, many filled by residents in the area. Further, the success of this project has had a beneficial effect on the surrounding community.

Gulfport, Mississippi: EDA provided public works and business development assistance to improve the harbor facilities in Gulfport. The Public Works grant was for \$2.9 million and was for new ship berths and automatic unloading facilities. A manufacturer of cranes, ships and barges received a business loan for \$6 million to locate at the port.

Chicago, Illinois: The EDA response to Chicago has been a coordinated agency-wide approach. The investments have centered in two target areas and on building the City's capacity for development. The investments have included \$2.3 million in Technical Assistance, \$23.1 million in Public Works projects, \$8.4 million in Business Development loans, \$7 million in Title IX assistance and \$304 thousand in 302 Planning grants.

For example, in the Stockyards area of Chicago, public works grants were made for a) streets, access roads, and utilities to open the Stockyards area for industrial development; b) the construction of a skill training center; and c) the construction of a parking garage to serve the new industrial area. Technical assistance funds were provided to study the feasibility of certain aspects of these developments. Seven EDA business loans have been approved to assist firms locating in the Stockyards area.

Since 1963 EDA has provided the City of Chicago with technical assistance and 302 planning grants to assist in building its capacity to plan for economic development. As part of its Comprehensive Economic Development Strategy (CEDS) effort, EDA has further aided Chicago in developing the "Chicago Plan." The basic objective of the Chicago Plan is the retention and attraction of businesses to specific target areas of the City. The Stockyards project is located in one of the target areas that are defined in the plan.

Through the Business Development program, EDA is working with the City to establish an innovative business loan guaranty program. It will be a vehicle through which industrial and commercial jobs will be created in these target areas. South Bend, Indiana: Since 1973 EDA has invested a total of \$9.2 million through the Public Works, Technical Assistance, Title IX, Title X and Local Public Works programs in an effort to revitalize South Bend's economy through the development of the City's airport industrial park and the redevelopment of the downtown. The Title IX assistance to the City of South Bend is an example of how an EDA grant is made to provide a direct loan to a private business. The City received a \$5 million grant which it in turn loaned to an Employee Stock Ownership Trust (ESOT) to enable it to purchase the South Bend Lathe Company Division of Amsted Industries. The EDA assistance, matched with private funds, kept the company in operation. Five hundred jobs would have been lost to the area without this assistance.

Lynwood, California (Los Angeles Special Impact Area): Since 1968, through Public Works grants and loans, Business Development loans and Technical Assistance grants, the Economic Resources Corporation (ERC) has developed and managed the Watts industrial park. This industrial park combines traditional horizontal industrial space with multiuse industrial buildings for incubator space. Specifically, ERC has received \$1.5 million in technical assistance for administration, staffing and management of the development, six public works grants and loans for \$5.8 million for site improvements and construction of industrial buildings and a number of business loans (\$1.5 million) for working capital to start-up and attract businesses to the industrial park. The park presently contains 11 buildings which are occupied by 27 businesses, employing 700 people.

Technical and Financial Assistance for Bestcraft Handbags

Bestcraft Handbag Corporation received technical assistance from EDA through a management consultant. The assistance was designed to help the firm develop a marketing and selling strategy to enable it to better respond to market demand. The study analyzed the firm's current marketing strategy and recommended revised plan by geographic area, product category, price point and type of store.

This marketing assessment was used by Bestcraft in developing their loan application and recovery plan. The NYC OED (partially funded through an EDA Trade TA grant) helped the firm prepare the loan application to EDA.

Technical and Financial Assistance for a Nonfootwear Firm

Nelson Brothers, a manufacturer of metal ornaments for handbags, was assisted with the development of a loan application and recovery plan. By the time this firm contacted EDA for technical assistance in January 1978, they had 15 employees which was down from a peak of 70 in 1973. The firm's management felt that they were so involved with the day-to-day management of the firm to keep it in business that they could not spare the time to work on the loan application. Working with the firm and EDA Business Development staff, the consultant completed the firm's recovery plan and its trade adjustment loan application, which were subsequently approved.

Technical and Financial Assistance for Joy Footwear Corporation

Joy Footwear Corporation, Hialeah, Florida, achieved a peak production of 2.8 million pairs of white rubbercanvas sneakers in 1976 when the firms' employment reached 340 workers. Increasing imports and changing market demand resulted in a cutback to about 140 employees by August 1977.

Following the completion of a diagnostic analysis of Joy's operation by a Department of Commerce specialist team, Joy's request for a direct loan of \$875,000 from EDA and a guarantee of a private bank loan for an additional \$875,000 was approved. This capital enabled Joy to purchase new direct injection molding equipment and provided the working capital necessary to develop a new product line of jogging shoes and casual footwear.

Employment at Joy Footwear now exceeds 300 employees and production has increased from 4,000 pairs a day to 12,000 pairs a day. The new product line has been well accepted, and Joy currently has the largest sales backlog in the company's history.

The company is currently using engineering assistance from a Commerce footwear specialist team to establish product standards and improved cost and production systems.

THE SECRETARY OF COMMERCE Washington, D.C. 20230:

January 9, 1979

MEMORANDUM FOR JAMES T. MCINTYRE

FROM

JUANITA M. KREPS

SUBJECT

PRESIDENTIAL REORGANIZATION MEMORANDUM

I have reviewed the latest draft decision memorandum. I was pleased to note the representation of some of our comments on the earlier draft. Nonetheless, I remain concerned with several features of the current document. My comments are intended as contributions to the equitable and balanced presentation of these important issues for the President's review.

First, the document is almost totally silent regarding the political impact of these proposals on the Administration's agenda for the 96th Congress. Certainly OMB should focus in its presentation on the merits of the case to be made, but the President should nonetheless be notified in this document of the potential impact of reorganization on the Administration's agenda. I have attached my November 28th memorandum to you on this topic.

Second, the scant discussion of the commerce and trade option makes it impossible for the President to make an informed decision regarding all feasible economic development and trade options. He would be compelled by the memorandum to render a full judgement on reorganization from a partial context. Stating within the memorandum that the memorandum is incomplete does not solve the fundamental problem.

An immediate consequence would be the President's inability to weigh the DDA option against the alternative of a strong Commerce-based development and trade organization. Should the President then choose both the DNR and DDA options the result would be dismemberment of the Department of Commerce by default.

Third, the decision document while incomplete is also in some cases damagingly misleading or factually wrong. I have appended a seriatim review of the memorandum in the hope that you may direct PRP to modify the base document in ways which will more accurately convey to the President the actual reorganization environment. Please note in particular my displeasure with the current characterization of EDA's reputation (i.e., "responsiveness to Congress"). Your earlier draft accurately described EDA's "strong management" attributes. Given the

global nature of the proposals, this and other editorial points are not picayune; the attached critique supports modifications which collectively would improve the document's accuracy while de facto reducing the single-mindedness of PRP's presentation.

Finally, should a decision memorandum akin to the current document be submitted to the President shortly, the document should register Department of Commerce preferences regarding the partial options which are presented. These preferences are as follows:

- 1. Exclude NOAA from consideration for the Department of Natural Resources.
- 2. Select the second of PRP's proposed economic development options, to consolidate Federal economic development programs (including a National Development Bank) with EDA in Commerce. PWEDA reauthorization, required in 1979, offers an excellent opportunity for enactment of this broad consolidation. Alternatively, much of the benefit that would be realized through a broad consolidation could also be achieved by more modest changes consistent with EDA's current reauthorization proposal to create a National Economic Development Administration.
- 3. Move immediately to a firm set of recommendations for the consolidation of the government's trade functions within the Commerce Department, thereby enhancing the mutually reinforcing functions of domestic economic development and trade expansion.

Altogether I have four requests regarding the draft decision memorandum:

- Alert the President regarding the possible impact of large-scale structural reorganization on other high priority Administration initiatives.
- 2. Acknowledge more directly the incompleteness of the trade option, and insert a set of paragraphs which alert the President to the alternative impacts on future reorganizations of trade functions which would be foreclosed or enhanced by decisions now regarding DDA or a Commerce-based private sector focus.
- 3. Correct the text regarding factual inaccuracies noted in attachment 1.
- 4. Include Department of Commerce preferences regarding each reorganization activity, and noting more directly the possibility of improving economic development activities through less disruptive legislative reauthorization of PWEDA.

If we are to have reorganization, it should be based upon sound information. Inaccuracies within the memo, combined with the absence of the commerce and trade option, together cause me to request these substantial modifications, not to oppose reorganization, but to provide more accurate and complete reorganization information.

Attachments

ATTACHMENT I

Specific Comments on the Text of the Decision Memorandum

- o Page 1, Paragraph 2; Development Assistance.
 This paragraph misses the fundamental economic development issue which is the need for an articulated economic development policy framework and not reorganization per se.
 The paragraph overstates the delivery system problems and understates the delivery improvements that are underway and possible without major box moving. In short, the wrong issue is incorrectly framed and, therefore, the following analysis and conclusions are erroneous.
- o Page 2. Exhibits I and II are misleading. They do not, in fact, represent all natural resources programs. Instead they display only those proposed for consolidation in DNR. Missing are such major agencies as the Coast Guard, EPA, the National Science Foundation, the Navy, the Department of Energy, NASA, and the Marine Mammals Commission. Nowhere in the paper is the totality of Federal natural resources programs represented.
- o Page 3 states that "Interior and NOAA have several areas of contested jurisdiction and overlap, including hydrology, marine biology, mapping and charting, and deep sea mining." This statement is false. The only area where jurisdiction has been sought by both departments is deep sea mining. We have separate and clearly defined jurisdiction in hydrology, marine biology, and mapping and charting, and no efficiencies would result from integration.
- o Page 4 states that "inconsistent regulations and procedures make it difficult, time consuming, costly, and confusing for natural resources users" and that fishery regulation and coastal zone planning "causes duplication, confusion for developers and environmental groups...." There is no evidence of inconsistent regulations or of problems for natural resources users such as confusion or added cost or time.
- o Page 7. The claimed savings of \$151 million and 3,700 positions are not documented and, therefore, cannot be verified. At best, these claims appear to be exaggerated. The Department of Commerce cannot foresee any major savings resulting from the transfer of NOAA to DNR.
- o Page 7. The claimed improvement in services to result from the consolidation of regulatory functions will not occur, because the regulatory functions will not be consolidated into a "unified structure." In the ocean and coastal area, at least, well over 50 percent of the government's regulatory authorities will remain outside of DNR.

- 2 -

- Page 7. No uniform data collection system will be created by the DNR proposal. Coast Guard, EPA, NASA and other agencies beyond the scope of DNR all have their own major data collection systems.
- Page 9, Paragraph 2; I would prefer to have the Department's position stated as follows: "Commerce believes that the proposed DNR lacks a clear policy focus, in that it would be neither a resource development agency nor a resource conservation agency. It states that the concept fails to view natural resources problems as economic and social issues as well as biological and ecological issues. Commerce also believes that NOAA is working well at Commerce and that DNR will be primarily a land and water use agency and, therefore, not the best home for NOAA. Finally, Commerce believes that the full benefits of the concept cannot be obtained without consolidating policy and regulatory authorities not now included in the proposal (such as those of the Coast Guard and EPA). Accordingly, the Commerce position is that oceanic and atmospheric functions should not be included in the proposed DNR."
- Page 13. The statement that general community facilities assistance is provided by EDA is incorrect. This misstatement further reflects the misconceptions and ignorance of the PRP staff as to what economic development is. (A small amount of community assistance type projects is done by EDA on Indian reservations, but this is a function of the unique needs and lack of near-term economic development opportunities on many reservations.)
- o Page 13. The PRP's point that the long-term economic development programs have no effective links with employment and training programs...etc., is gratuitous in that their option one does not address the issue either except to say links should be formed. Such links can be formed in any option. Indeed, these links are now being forged under the IACC and via the revised CETA Act.
- O Page 13. Similarly, the paragraph on Program Procedures Conflict is again a process issue which the reorganization per se does not address. Again we believe that many of the legitimate problems in this area are and can be addressed short of reorganization and/or omnibus legislation.
- Page 14. The statement in the second paragraph that "Commerce, which has major economic development responsibilitie spends most of its EDA funds on public facilities, " while HUD"....is misleading. EDA's public facilities are economic development facilities e.g., water/sewer for economic growth purposes such as industrial parks.

- o The Table which summarizes the respective agency functions incorrectly states that EDA provides community development public works grants, etc. Again, EDA does not per se provide community development investments.
- o Page 14. Equally false is the statement that EDA is hiring urban specialists from HUD. This is not true. An earlier PRP draft also contained the converse, in that HUD was hiring people from EDA, but that is now dropped.
- Page 17. The absence of any detailed suborganization information/structure or the specifics on the process improvements such as targetting, eligibility, etc. is a major shortcoming of the PRP decision memorandum. The President is being asked to "buy a pig in the poke" as to what the proposed DDA really entails. The terse statement of establishing organizational representation for urban and rural responsibilities sets up the very bifurcation that a balanced sub-national policy is to overcome. The additional reference to the special delivery system for small towns and rural areas sounds like political "soap." How is this to be done? We already have one its called Economic Development Districts.

The preliminary organizational process chart depicting the field structure and client relationship is as simplistic as much of the PRP's other analysis. E.g., where is the State role which the lack of is lamented by PRP?

- o Page 18. The discussion of rural development raises the question as to how the PRP proposed to deal with urban development. It is not clear what this is all about.
- Page 19. The purported \$43 million savings noted in the last paragraph is .001% of the total funds (\$42 billion) to be encompassed in the DDA. Their proposal, therefore, cannot claim cost savings as a major rationale.
- o Page 21. The limited form option which exclused UDAG notes it would avoid some of the disruption and cost associated with attempting to move UDAG. Are there not costs and disruptions in moving FMHA programs or are we saying something else?
- o Page 21. Two typos exist on the bottom of the page. The second option (1) in the penultimate paragraph should read

- option (2) and the dollar amount in the last paragraph should be \$43 million, not \$4.3 million.
- o Page 22. The misinformation and misleading statement that most of EDA's funds now go to community development is again repeated.
- An equally loaded statement is the statement, "This option also builds on EDA's reputation for responsiveness to Congress." First, this makes the Agency sound like its reputation is based on "pork" whereas its good reputation is the result of efficiency and responsiveness to the client groups. It should also be noted that the previous draft of the PRP in listing the advantages of the Commerce option cited:

"This option also builds on EDA's reputation for strong management." (P. 20 of pre-New Year draft)

This is now dropped. Has EDA's reputation diminished over the first week in January or was this statement objected to by HUD?

- One advantage of the Commerce option which the PRP neglects to make is that such an option is more achievable and will create less disruption -- programmatically and politically.
- Page 25. Last but not least the decision "check boxes" for the President are biased in their terminology in that the PRP preferred option states "pursue the associated program reforms" whereas for the other options speak only to possible program reforms. This is a further reflection of the PRP's partiality and should be corrected.

THE SECRETARY OF COMMERCE Washington, D.C. 20230

November 28, 1978

MEMORANDUM FOR: James T. McIntyre, Jr.

Stuart P7 Eizenstat

FROM: Juanita M. Kreps

SUBJECT: Reorganization

The President's Reorganization Project (PRP) is in the final phase of developing several reorganization proposals involving the Commerce Department. We have been apprised in only general terms of PRP's objectives, criteria, and options. However, the proposals apparently include the creation of a Department of Resource Conservation and a Department of Community and Economic Development.

Since the Commerce Department would be affected directly by these proposals, I am obliged to present my reactions for your consideration. My general perception can be stated simply: structural reorganization of the nature suggested by my conversations with the reorganization team is beneficial neither to the Administration nor to achieving the goals of this Department which I reviewed with the President in early 1977. On the contrary, such proposals would be excessively costly to both.

Certainly, no one is opposed to reorganization that offers a good chance of accomplishing any given set of objectives at less cost or with greater effectiveness. There are important programmatic problems that need to be addressed. Each particular reorganization option should, however, be examined for specific costs and benefits. From what we understand of PRP's proposals, it is clear that the tangible costs outweigh very obscure benefits, for several reasons.

First, the proposals fail on their merits. One might choose structural reorganization if there were clear evidence that our agencies were not working effectively to resolve important problems identified by the Carter Administration. Such is not the case with Commerce. We are addressing, with considerable success, economic development, ocean policies and services, trade expansion and regulation, industrial and economic analysis, regulatory reform, enhanced technology and productivity, and a full range of anti-inflation and business policy issues. Structural reorganization would substantially impair our ability to pursue these important priorities.

Second, there is no compelling policy statement to be made. One should hesitate to engage in a legislative struggle absent either the President's desire to establish a new national policy or the presence of an urgent public need which only these proposals could address. The creation of the Department of Energy met this criterion, but I see no such policy statement or public need in the current proposals. The general electorate will not notice. State and local interest groups will notice, but will not approve. These reorganization proposals, coming on top of major budget cuts, will add to the difficulties the Administration faces from major constituent groups. The business community will be outraged by efforts to dismantle the Department, which has in the past two years built important bridges between the private sector and the White House.

Third, these proposals would involve several committees of Congress, compelling the Administration to stretch its resources across them in pursuit of reorganization. This concentration on reorganization will be to the detriment of other priority initiatives in those committees. At a minimum, these proposals would affect House Interstate and Foreign Commerce, both Public Works Committees, Senate Commerce, Merchant Marine and Fisheries, and both Appropriations Committees. These Committees will not view these reorganization proposals favorably.

By raising these particular reorganization issues, the Administration may in fact give impetus to the Congress to propose counterproductive Executive Branch reorganizations. For example, House and Senate subcommittee chairmen who cover ocean issues may introduce legislation to create a new independent oceans agency. The House subcommittee chairman who handles telecommunications has rewritten the draft Communications Act to provide for an independent telecommunications agency. Efforts of this type have been successfully stopped in the past, because Commerce has been a supportive home for these programs. A weakened Department could encourage Congressional efforts to increase the number of independent agencies.

Fourth, structural reorganization is enormously disruptive to the institutions involved. The Department of Commerce has gained momentum in a variety of areas by linking our information, technology and financing resources into efforts that focus on structural problems. Dozens of projects have been started under coordinating teams from the ten agencies in

Commerce. The footwear project, one of our earliest, drew on several agencies. Comprehensive assistance to cities and several industry projects were launched and are proving effective. In Commerce we have a core of programs targetted to economic problems unreachable by macroeconomic measures. That such problems must be addressed is obvious, but the Administration's ability to succeed is dependent on our remaining intact. In addition, a major reorganization would dissipate that positive movement as morale declines and staff expend their energies on the problems of reorganization.

Finally, for the past two years the Administration has had a full legislative agenda. In the remaining two years of this term, the Administration should press for resolution of a few high priority policy issues: SALT II, the anti-inflation program, the unfinished urban agenda; multi-national trade negotiations; and regulatory reform. Each of these and others are highly visible to the public. Structural reorganization is not.

In summary, PRP's proposals lack a clearly discernible purpose. They involve heavy opportunity costs to the President and a tremendous disruption in the ongoing operation of several major departments. These costs should be weighed against what appear to be at best negligible benefits. The President should have the opportunity to build upon a strong record of accomplishment; to focus upon high priority issues; to consolidate existing reforms; and to make existing programs work better. For the Commerce Department, this would mean improving the effectiveness of individual programs, improving the coordination and delivery of programs within the department, consolidating programs and activities, and improving the interagency process for coordination.

I have submitted to both of you a major legislative proposal — the National Economic Development Act — to strengthen and consolidate economic development activities. Its major features include a National Development Bank (NDB) that consolidates the private sector incentives proposed for the NDB with EDA business loan authorities; uniform Federal economic development planning requirements for State and local governments; simplified and consolidated State and local economic development grant programs; and a standby countercyclical public works employment program. This proposal can be achieved and would be a major positive step toward improved management of economic development activities. It does not require structural reorganization.

More can be done in terms of improved inter-departmental coordination, particularly in the area of economic development. Under the auspices of the Interagency Coordinating Council, we have made progress in terms of information sharing, common planning

requirements, the development of single project investment strategies, and standard forms and technical requirements. This work should be expanded.

NOAA is another illustration of our efforts to improve programs. The Department has focused on a major aspect of NOAA, that is, the balance between resource promotion and development and conservation. We streamlined NOAA's internal organization this year to enhance its commercial fisheries program, and to provide better cross-cutting management of marine minerals, ocean management, and climate research areas. At the request of the President, moreover, we have just completed a review of the status of the Nation's ocean policy. A report was submitted to Stuart Eizenstat last week.

These actions allow strong resource promotion and private sector development consistent with environmentally acceptable standards. NOAA's next steps will focus on greater promotion and development of fisheries; on facilitating the economic development of outer continental shelf oil and gas; on the growth of commercial shipping; and finally, on the use of the coastal zone for recreation and similar private sector-based initiatives. To move NOAA at this juncture would jeopardize these efforts.

In addition, we believe that there is potential for expanding Commerce's trade responsibilities in order to consolidate Administration efforts in this area. This issue is important in light of the uncertainties the Administration faces in implementing the MTN. We are exploring these possibilities with the OMB staff.

In the past twenty months Commerce has combined its traditional resources in creative ways to capitalize on opportunities for trade, industry and regional development. Distinctions between trade, regional and industrial objectives blur in practice. To solve a trade or industry problem is to assist a city, county, or region toward greater self-sufficiency. The key to our new approach is our ability to draw upon all of our operating agencies for information, technology, and financing resources, and to focus on specific microeconomic problems.

The challenge of the next several years will be to use limited resources wisely in solving industry, trade and regional economic problems. I believe that these problems are inseparable, and that Commerce is the only Department capable of addressing them in a coordinated and effective way.

cc: Anne Wexler
Harrison Wellford



January 2, 1979

MEMORANDUM FOR James T, McIntyre, Jr.

FROM:

Suanita M. Kreps

SUBJECT: Reorganization 1979 Discussion Paper

My assessment of the PRP's information memorandum follows in three parts:

- (1) general observations;
- (2) specific points on the economic development option;
- (3) specific points on the natural resources option.

I. GENERAL OBSERVATIONS

First, PRP has outlined major structural changes without a clear vision of the policy purposes to be served. Powerful constituencies in the Congress and the country can be expected to resist the proposed changes. Serious administrative dislocations will almost certainly accompany their implementation. The costs are high; but the benefits are obscure. The Congress, the country, and indeed the affected Federal agencies deserve a better explanation from PRP of what it's all for.

Second, PRP's memorandum is incomplete. Especially regrettable in this regard are PRP's failure to develop substantively the commerce and trade option and to link it to economic development.

Third, in its treatment of economic development, the memorandum lacks practical "feel" for the kinds of problems the Nation will confront in the 1980's, for the relative administrative capacities of EDA and HUD, and for the likely effect of lumping the two agencies together.

Finally, PRP seems insensitive to the limitations of scalar economy. It is hard to believe that collecting all Federal development activities under the same Departmental roof will eradicate inefficiency by itself. Yet the memorandum does not explain how agencies with diverse responsibilities, operating strategies, and constituencies will be made to function together smoothly and productively.

II. THE ECONOMIC DEVELOPMENT OPTIONS

٤٠٠. ٠٠٠.

PRP's proposal to group economic development, community development, and housing programs in a HUD-based Department of Development Assistance (DDA) lacks practical appreciation of the economic problems we confront and of the DDA's almost certain unwieldiness.

More important than the weakness of the DDA proposal itself, however, is the fact that promising alternatives are insufficiently developed and assessed.

The Economic Problems We Confront

PRP's analysis rarely looks beyond textbook administrative pathologies to the serious economic problems which reorganization should address. We live in a new era of American economic history.

- o Domestically, we have become far more sensitive to continuing imbalances in the distribution of private investment, jobs, and population. We have dedicated ourselves to an unrelenting pursuit of balanced national growth and economic development.
- o Internationally, our trading supremacy has largely evaporated. Industries and regions have been adversely affected by capital obsolescence, stiffening foreign competition, and by our national commitment to free trade.

In a Department of Development Assistance, the primary mission would be community development. Economic development would become a subordinated, perhaps even an indistinguishable, contributor to that end. The critical nexus between trade and economic development functions would have no institutional expression.

The continuing importance of community development must not be minimized. Nonetheless, it is absolutely essential to understand that in subordinating economic to community development DDA reflects a policy "mind-set" more fitted to the 1960's than the 1980's. The nation needs HUD, but it cannot afford DDA.

DDA Would be Unwieldy; Federal Economic Development Capacity Would be Jeopardized

DDA would be a HUD-based superagency for the distribution of \$37.8 billion in grants, loans, loan guarantees, and other assistance. It would be dominated by HUD's social welfare ethos and its urban and housing industry constituencies.

- o DDA would provide a frail management framework for Federal economic development efforts.
- o DDA would be an awkward and artificial amalgam of programs with different responsibilities and operating strategies;
 - -- PRP fails to make an effective case for linking housing and economic development programs.
 - Community development and economic development are fundamentally different. Economic development aims at stimulating private investment, creating or protecting jobs, and building economic and tax bases in economically distressed urban and rural places. Community development serves a broader and less business-like purpose--to promote the social welfare of communities and their residents. It is immaterial that some EDA projects and some CDBG projects have been similar in practice. objectives, the quiding philosophies, and the constituencies of the two programs are distinct. Moreover, the importance of economic development has grown tremendously. Instead of reinforcing Federal economic development capacity to cope with new and threatening economic realities, DDA jeopardizes that capacity.
 - -- Simply locating UDAG, FmHA, EDA, and other programs in the same Department will not produce the desired coordination either between those programs or between those and other programs that have substantial development impacts, such as DOT, EPA, and ETA. Rearranging boxes will have little or no effect upon the process changes needed to assure such coordination and, in fact, may delay promising coordination efforts currently underway.

A Trade and Economic Development Alternative

PRP Economic Development Consolidation Option is a promising step toward the design of a Federal microeconomic policy and program instrument suited for the 1980's.

In my view however the proposal should go further to link Federal economic development and trade functions, and to suggest a local planning framework to coordinate all economic development programs.

In our view, a Department of Trade and Economic Development would be based on a sober assessment of emerging domestic and international economic relationship, and on the recognition that, in a private enterprise system, achievement of our basic economic objectives depends on the private sector, in partnership with all levels of government.

Organizationally, the proposal would join elements of Commerce's PWEDA reauthorization plan with PRP's economic development consolidation option, and combine these with an expanding Commerce trade capability:

- The PWEDA Reauthorization Proposal, transmitted to Stu Eizenstat and Jim McIntyre on November 22, would establish a common locally-based planning framework for all Federal economic development programs, as well as uniform eligibility criteria to insure proper targetting of funds. It would not require major reorganization, although it would place the National Development Bank in Commerce. Current EDA business finance programs would be merged with the Bank; and there would be a consolidation of EDA public works, economic adjustment, and other grant programs.
- o PRP's Economic Development Consolidation Option is entirely consistent with Commerce's PWEDA proposal, but more ambitious in its inclination to consolidate all of the major Federal business assistance capabilities. On political grounds, some more modest consolidation, together with improved interdepartmental coordination, may be desirable.

o Commerce's Trade and Industry Functions could be expanded as appropriate during 1979-80. Strengthening Commerce's trade function and joining it with an enlarged economic development capability would facilitate export promotion and increase Federal capacity to implement national trade policy. A more prominent Commerce role in the trade area will contribute to more coherent policy formulation. Commerce's efforts in trade promotion would be augmented by its industrial analysis and technology innovation programs, and by EDA's trade adjustment and business assistance capabilities.

III. A DEPARTMENT OF NATURAL RESOURCES (DNR)

The proposal to create a DNR contains four serious deficiencies.

- First, DNR lacks a clear policy purpose. As a result, resource development interests will view DNR only as a jumble of protectionist/conservationist agencies. Environmental interests, on the other hand, will be concerned that placing developmental agencies such as the Forest Service in the new department will dilute its conservation missions. If DNR must be created, it should have one clear policy focus.
- Second, the proposed DNR will not solve the problems cited by the PRP, and will not deliver the hoped-for benefits. Creation of a DNR will do nothing to resolve the fragmentation of regulatory programs, or the inconsistencies that result from that fragmentation. Most regulatory programs in the ocean area, for example, are administered by the Coast Guard or by the EPA. Neither of these agencies would be included in DNR. Further, creation of DNR will not result in a consolidation of natural resources policy authorities, for the same reason. The fact is that the problems listed by the PRP were not caused by the government's organizational structure, and cannot be solved simply by changing that structure.
- out of context by failing to view them as economic and social problems. I view this failure as the biggest single deficiency in the entire package. Natural resources problems cannot be dealt with in a vacuum. Rather, they must be treated as economic, social, and political problems involving natural resource use. In the fisheries area, for example, the problems stem from the economic value of the resource, the social character of the American fishing industry, the economic structure of the industry, and the political necessity of sharing our limited resources with foreign nations. These factors far

outweigh biological considerations in making fisheries policy. Similar situations exist with offshore oil and gas, deep seabed hard minerals, coastal land areas, and national forests. Very complex questions and problems are involved. For the most part, they are not amenable to simplistic administrative solutions such as structural reorganization.

o Fourth, the DNR proposal does not give sufficent regard to oceanic and atmospheric missions. Clearly, DNR will be a land and water use management agency. Oceanic and atmospheric programs, while grouped separately, appear to have been included only because they are natural resources, not because they fit well with the new department's major focus. This contradicts everything that the Department of Commerce has worked for from the start of this Administration: a major new ocean policy, a sensible approach to fisheries development, resolution of seabed mining policy, and other objectives. In the short space of two years, we have reversed the previous criticism of the executive branch and raised the visibility and priority of Federal oceanic and atmospheric efforts. The proposed DNR would undo this good work by burying NOAA in a land use agency.

In view of these considerations, I think it imperative that NOAA should be left in the Department of Commerce, where it is working well.

NO COMMENTS WERE RECEIVED FROM THE DEPARTMENT OF DEFENSE ON THE ADDITIONAL REORGANIZATION OPTION.

NO COMMENTS WERE RECEIVED FROM THE DEPARTMENT OF THE ARMY
ON THE ADDITIONAL REORGANIZATIONAL OPTION.



THE DEPUTY SECRETARY OF DEFENSE.

JAN 8 1979 --

MEMORANDUM FOR THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Reorganization '79 Draft PDM

I have asked Secretary Alexander to comment on the options in Water Resource Development with respect to the Principal Alternative (Option 1). With respect to Option 2, which appears to be favored by the Secretary of the Interior, I want to reaffirm the opposition of the Department of Defense to that option, which would completely remove from DoD the Civil Works function of the Army. That option would unacceptably handicap the performance of mobilization support functions within DoD, as described in the memorandum from John Kester to Peter Szanton dated October 27, 1978.

CW Durians

NO COMMENTS WERE RECEIVED FROM THE DEPARTMENT OF DEFENSE ON THE CABINET INFORMATION MEMO



SECRETARY OF THE ARMY

8 January 1979

MEMORANDUM FOR THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Reorganization '79 Draft PDM

Following are my comments on the draft PDM on Reorganization 1979:

- I. Suggestions for clarifying the PDM document so that the President has a clear choice of options and their rationales.
 - A. The paper remains unclear on the proposed destiny of the Army's regulatory functions (e.g., 404 permits). Page 7, which says that "permit seekers... (would be) dealing with only one agency" strongly implies consolidation of the regulatory programs in DNR. Yet the reference on page 9, under Agency Comments, to Army's point that the skills of numerous "lost" planners would be needed to discharge regulatory responsibilities, would lead the President to believe that such responsibilities are contemplated under Option 1 to remain with Army.
 - B. The page 6 Sub Option on "navigation and transportation policy functions" is unclear. Does it mean that navigation project planning goes to DOT instead of to DNR? If not, what "transportation policy" functions exist now within Army? The policy/procedures for calculating navigation project benefits will be defined by the new P&S manual, currently under joint development by Army/DOT.
 - C. The decision block on page 11 should be revised to reflect that Option 1 as formulated does not contemplate imminent transfer of navigation and transportation policy functions to DOT. Clarify whether the option includes Army regulatory functions.
 - D. The PDM addresses the rationale for rejecting total transfer of EPA functions to DNR. But it does not adequately address the possibility that transfer of water resources functions specifically might better achieve the objectives of consolidating development/protection decisions.

- II. Comments on Items appearing in draft PDM which were absent from prior documents upon which we commented.
 - A. You should be aware that ultimate transfer to DNR of operation/
 maintenance missions now assigned to Army, when combined with
 initial transfer of project planning functions, would remove the justification for retaining the present field organization of the Corps an
 acknowledged strength in its ability to execute Defense-related missions,
 the natural disaster relief mission, and any remaining regulatory responsibilities.
 - B. We concur with CEQ's comment that a degree of creative tension among Cabinet/Sub-Cabinet agencies may be an undervalued asset in the current organization for arriving at balanced decisions on conflicting needs for resource development/conservation.
 - C. We fully concur with the concept that water project planning practices to date have resulted in some projects that should not have been built, and many that should have been built differently. But we believe the statement of the problem in the PDM is overly simplistic in ascribing the cause as a desire by construction agencies to maintain or increase construction funding levels. The cause was complex. The remedy must be commensurately wide-ranging. Our new water policy reform, when implemented, will be so.
 - D. I would ask you to revise the "Army Comments" section on page 9 to read as follows:

"Army addresses only the Water Development Option and favors Option 3, a strengthened Water Resources Council. It believes that with strong leadership, and the new water policy in place, coordination could work and would be a less costly alternative. Army believes that the recommended option would jeopardize politically the implementation of other water policy reforms; that the loss of planning functions would handicap the Corps, particularly in giving military support during times of emergency, and in recruiting; and that the change would result in delays and increased project costs. Army argues that divesting water project planning will deprive future project planners of lessons learned in the design, construction and operation of existing ones. The Corps would have to reacquire at least 650 of the 3,000+ "planners" listed under Option 1 in order to effectively link planning with design and construction, and to maintain the skills necessary to discharge any remaining regulatory responsibilities. Army also believes that separating budget and management responsibilities for O&M conflicts with fundamental principles of ZBB."

Thank you for the opportunity to comment on this draft PDM. I would ask that you also make available to the President a copy of my 3 January 1979 comments to you on "Reorganization '79." I hope my comments here and therein prove constructive in affording the President the soundest basis for decision.

Clifford L. Alexander, Jr.

Copper allerande



SECRETARY OF THE ARMY WASHINGTON

3 January 1979

Honorable James T. McIntyre, Jr. Director, Office of Management and Budget Washington, D. C. 20503

Dear Jim:

I have reviewed your Information Memorandum on "Reorganization 1979" and offer the following comments and observations. My comments in this letter are generally bounded by the information contained in the document sent to me; but where there appear to be ambiguities in the "Principal Alternative" presentation, I will infer intent from the "Water Resources Options" paper furnished my office last week by the PRP staff, and comment accordingly. Since there may be no opportunity for me to comment on the PDM when you prepare it, and since you indicate a desire to incorporate the substance of my comments/observations in that PDM, I believe it justified to venture beyond the "Reorganization 79" paper itself. Attached for your information is a copy of my 22 December letter to Harrison Wellford, with reactions to the PRP staff analysis circulated earlier. You may find them useful in the event your draft PDM covers detail which was present in that document and omitted in "Reorganization 79."

I will seek to keep my comments brief, and focused on the "Principal Alternative." My comments center on:

- o An apparent need for further analysis of the impact of splitting off the project planning function.
- o Ambiguities in presentation of the "Principal Alternative," especially with regard to plans for Own and regulatory functions.
- o Need for the PDM better to address the "third option," and the omission of EPA water functions from consolidation.

SPLIT IN PLANNING

Your paper correctly displays many of the shortcomings in the present organization of Natural Resources and related functions. In the water development area, however, I don't believe the paper gives compelling enough support for the proposition that, while water resources problems are being addressed by Water Policy reform, "they can be more effectively and permanently implemented with the organization represented by the "Principal Alternative." The implementation of the President's new water policy is proceeding on a wide front. Current water policy reform holds enormous potential for correcting shortcomings cited in project planning. Corps' capacity for change, newly guided by this policy, has begun to be demonstrated. With the disadvantages of divesting the project planning functions, as discussed below, the net incremental gain from divesting project planning may not be worth the candle. In any event, I believe the PDM should identify for the President how it is planned to prevent the inevitable opposition that will arise to the Reorganization proposal from spilling over into opposition to water policy reform.

I should make the following specific points about the impact of splitting off preauthorization and preconstruction planning:

The transfer of approximately 3300 spaces to DNR as the "planning" function, and 50 for programming, would result in the transfer of all 2300 currently allocated planners plus 1000 allocated to the engineering function of the Corps. The capability to execute all aspects of planning, from survey reports, comprehensive and special studies, and Phase I and Phase II AE&D, to O&M support such as permit evaluation and master plans for operating projects, would be removed from the Corps. The Civil Works program would lose virtually all its social scientists, all life scientists, half its physical scientists, nearly all hydrologists and a major portion of its hydraulic engineers.

The interrelationships between planning and the other activities of the Corps vary from district to district; however, the following is an estimate of the requirement for retention of detailed design,

specification preparation, and O&M specialists, even if the "planning" function is reassigned:

- a. Detailed Engineering and Design 200 hydrologists and hydraulic engineers.
- b. Small projects program 150 engineers to do detailed design.
- c. Regulatory program 80 engineers and scientists to do the physical and life science background support for processing permits.
- d. Other O&M 220 engineers and scientists to do the master planning and EIS work necessary to insure that operating projects continue to operate efficiently, effectively, and in compliance with environmental statutes.

These 650 spaces would have a direct cost of approximately \$17 million/year. Indirect costs to support the 650 spaces would be an additional 100 spaces and \$4.5 million/year for a total increase of 750 spaces and \$21.5 million per year.

The impact on recruitment of transferring the planning function cannot be precisely defined; however, a considered subjective evaluation indicates there will be a negative impact for reasons shown in Attachment 2.

Support during time of emergency may be impacted too by loss of the planning functions, since planners in a district team are now pressed into design support work during a national emergency. If these planners are in a non-engineering type organization they will not be as prepared or as available. In fact, most planners working in isolation would be so removed from the construction phase that they would be of little value during a national emergency.

AMBIGUITIES IN PRESENTATION OF "PRINCIPAL ALTERNATIVE"

To illustrate the ambiguities and need for more clarity in presentation of the "Principal Alternative," the following specific comments are offered:

Permit Functions

Page 1 identifies "complex permitting requirements" as a problem addressed by the "Principal Alternative." Page 7 reasserts, as an advantage of that alternative, that "Simplification and consolidation of fish and wildlife project review and dredging permit reviews will speed the regulatory process."

Taken together, these statements would indicate an intent to move regulatory functions (including the 404 program) from Army to DNR. Yet the capsule descriptions of functional transfers on pages 4 and 5 characterize the shift as involving only "policy, planning and budgeting" in water development ("water planning functions"). And since EPA has certain statutory authority over the issuance of such permits, and remains an independent agency under the "Principal Alternative," there does not appear to be a true "consolidation of dredging permit review" in DNR.

Still a third inference on intent vis a vis present Army regulatory functions comes from the "Water Resources Option" paper: to leave "processing" of permits with Army, but have "contested cases" decided by DNR. If this is contemplated, it would not speed the permit process, mainly because it would provide no incentive for disputes to be settled at the field level of the Corps and other agencies.

Although the "Principal Alternative" states that consolidation will speed up the regulatory process, our experience has shown that consolidation is no guarantee of speed. A recent example involves the Choke Canyon project in Texas where BUREC sought a Corps permit for dam construction. During processing of the permit, the Corps learned that the Fish and Wildlife Service objected to the project on the basis of the Endangered Species Act. Approximately one year was required to reconcile these conflicting requirements placed upon the Corps by two agencies within the Department of Interior.

Uncertainties on actual intent regarding regulatory functions leaves us unable to validate the personnel and dollar savings cited in "Reorganization 79." The loss of 3,000 (page 6) or 3,300 (deduced from Exhibit III) personnel would severely constrain the Corps' ability to carry out its regulatory functions unless the impact is alleviated through hire of some replacement personnel, as discussed above.

Exclusion of O&M

The "Reorganization 79" paper is silent on options for treating O&M, although the PRP "Staff Analysis" indicated the final assignment of O&M functions is yet to be decided. The current paper characterizes function transfer as that of "water planning" only, implying that O&M arrangements would be unchanged.

I assume that the PDM will be more explict on O&M options. But the "Natural Resources Options" paper implies that the "Principal Alternative" would contemplate O&M being performed by the Corps, with O&M budgeting done by DNR. I would oppose this for reasons stated in my 12 December letter to Mr. Wellford.

GENERAL COMMENTS

I have a few comments on the paper in general as it relates to changes not directly associated with the Corps. First, the argument for rejecting the "third option" appears to need strengthening. There can be no argument but that past interagency coordinating groups have failed. In my opinion, this was due mainly to absence of agency-unaffiliated leadership and the requirement of decision by consensus. But the inherent weakness in the coordination approach of the past may well be correctible -- at less expense than the "Principal Alternative" -- by the measures identified to strengthen the WRC, given the promulgation of the new planning manual, P&S revision, and Independent Review elements of the new Water Policy.

The logic for excluding EPA from reorganization consideration needs to be better articulated in the PDM. A point is made of EPA's separate nature. Yet in the water resources area, its close interaction with water resource agencies is manifestly clear. Water quality is a key component of water availability. EIS's are filed with EPA, establishing a close link with project planning, construction, and operation. By statute, many regulatory decisions are made in close cooperation with EPA. EPA requires construction agency support for execution of its grant program, to include a recent request for help in total program management to improve fiscal performance. Regulations involving Clean

Water Act dredge and fill permit administration are issued jointly by the Corps and EPA. Perhaps only the portion of EPA committed to water problems should be considered for transfer, should a DNR be created.

My comments close with some attached suggestions for detailed textual modification of the memorandum (see Attachment 1). As I indicated in my 12 December letter to Mr. Wellford, all of the above comments and observations are furnished in the interest of providing the President with as complete an evaluation as possible of the natural resources reorganization decision he must make. I trust that you find them of value in this regard.

Let me assure you that I fully support the concept that water resurces/natural resources organization should be consistent with efficient execution of the President's Water Policy. I simply do not believe that all the ramifications of the "Principal Alternative" have been evaluated thoroughly enough. I believe it underestimates the responsiveness of the current organization to new policy direction, and fear that its adoption by the Administration would engender unnecessary opposition to thorough and timely water policy reform.

Sincerely,

Incls

Clifford L. Alexander, Jr.

ATTACHMENT 1

DETAILED TEXTUAL COMMENTS

Page 6, line 1: "the incentive" should be "any possible incentive"

Page 6, line 5 and Exhibit III: Change either the "3000" on page 6 or the "3350" in Exhibit III so that the two figures are more consistent. If 3000 is correct, reduce the percentage in Exhibit III.

Page 8: The meaning of the first "But" is unclear. It should probably read "... construction personnel. The Corps may well have to retain/redevelop a planning capacity in order to recreate necessary links between planning and construction, and to retain the skills required to discharge remaining regulatory responsibilities."

General: In the recapitulation of Natural Resources Programs and Activities, the Corps' responsibilities for emergency reaction, mobilization support, recreation program execution, and hydropower development and operation have been omitted. The regulatory program appears to enjoy unusual detail in its description, as compared with the number of people and the level of budgetary support involved. Corps work for other agencies of Government has been omitted.

ATTACHMENT 2

RECRUITMENT PROBLEMS STEMMING FROM LOSS OF PLANNING FUNCTION

- A. Many young engineers come to the Corps because of the wide range of opportunities available as they progress in their career.
- B. Some engineers do not know precisely the area they want to concentrate upon, and the loss of planning eliminates some major training opportunities.
- C. Most young engineers enjoy being a part of interdisciplinary teams that work together to solve different and difficult tasks. Loss of planning and the "softer" disciplines will reduce the interdisciplinary team opportunities.
- D. Most planners are civil engineers who gained valuable design experience in the Corps. This opportunity for training will be much more limited in the proposed organization.
- E. Major universities are stressing the planning functions in the Civil Engineering undergraduate curriculum.



SECRETARY OF THE ARMY

22 December 1978

Mr. Harrison Wellford
Executive Associate Director for
Reorganization and Management
Office of Management and Budget
Washington, D. C. 20503

Dear Mr. Wellford:

Thank you for your 15 December transmittal of the PRP Natural Resources Staff Analysis and the opportunity for comment it offers. As you know, we in the Department of the Army firmly believe that any substantive reorganization proposals require detailed dialogue between the PRP and the affected Federal agencies.

After review of the staff analysis I find that it contains many of the shortcomings that were originally surfaced in the PRP's 12 December 1977 paper seeking public response to organizational alternatives. You will recall that a comprehensive Army analysis of that document was sent to Bill Harsch on 25 January 1978. Consequently, I do not consider it necessary to replow that ground, other than to point out that we believe the positions taken in our reply remain valid. We still see the establishment of an effective Federal water policy authority (we had suggested a strengthened WRC) as the single most effective reorganizational initiative. However, since Option 2 is the alternative now under consideration, I consider it extremely important that you understand the full impact Option 2 will have on the Corps of Engineers.

Of foremost concern is the split in planning functions driven by the transfer of preauthorization and preconstruction planning to the DNR. This artifical separation overlooks the strong requirement for continuity from applied research through planning, design, construction, and operations and maintenance of water resource projects. Any disconnect in these interactive processes will foster delays, reduce the quality of projects and probably increase project costs. Another adverse impact of fragmented planning shows in the regulatory process. Planning and regulatory functions are interrelated and mutually supporting. The multi-disciplinary staffing of

Corps Districts was found essential to provide broad based planning capabilities that contribute to both the regulatory and planning functions. The Corps' capability for effective public service through exercise of its regulatory functions will be degraded if planning personnel are removed from its control. The cost will also increase. The degree of inefficiency will depend, of course, on (a) the exact "seam" at which planning is divested; and (b) what provisions were made to retain in the Corps the requisite people/skills now engaged in the "planning" process.

Because of this latter need, few economies, if any, can be associated with the split of planning responsibilities. There will be a need for some layering and duplication of expertise in the DNR and the Corps, and an accommodation to the fact that Military Construction programs can no longer rely upon Civil Works planning assistance during peak periods of military project activity. These factors would presumably reduce the manpower and dollar savings the PRP attributes to Option 2. (The origin of these figures is unknown to us.) So would the costs attendant to establishing a field organization for DNR, if the figures cited in your paper have not already accounted for them.

The PRP analysis sees the reorganization as an enhancement of the Corps' capacity to carry out its mobilization missions. This is based on the creation of a larger total workforce through Corps assimilation of portions of BuRec and the SCS. The exact makeup of personnel transferred into the Corps, and their ability to offset mobilization capabilities lost to the Corps through transfers out of planning personnel, are not known at this time, and therefore we cannot confirm your projected improvement in capacity to support mobilization.

Another significant problem is the requirement for the Chief of Engineers to serve two department heads if Option 2 is implemented. He will no longer enjoy the flexibility essential for the speedy and efficient transfer of Civil Works resources to support partial or total mobilization, since program control will be exercised outside Department of the Army. Critical mobilization needs are best met under the current organization where Army exercises full authority for all Corps functions.

Mr. Harrison Wellford

Raised for the first time in the PRP analysis is the thought that operations and maintenance functions may be transferred to the DNR or split between the DNR and the Corps. I am strongly opposed to such action. My reasons parallel those associated with the split of planning functions. The tasks of planning, design, construction, operations and maintenance of large water resources structures are unique and complex. It is essential that a direct linkage exist between these functions to insure technical evaluation of completed projects and the translation of this data into improved plans and designs for future projects. can see no advantages in the removal of operations and maintenance functions from the Corps. And I seriously doubt that any other agency could do a better job in this area. Finally, I am not clear on how, within the context of the President's ZBB process, the Secretary of the Army could usefully oversee budget execution of O&M activities without oversight of budget formulation.

A point I raised in our meeting on 7 November deserves reiteration. I believe that the problems addressed by the PRP are based on perceptions a year or more old. They do not take into account more recent improvements in policy and process. We have in the current Army organization the tradition of a strong chain of command responsive to changes in policy guidance and willing to implement these changes with speed and efficiency. Army's contribution to the development of, the defense of, and the implementation thus far of the President's new Water Policy attest to that. There is continuous and frequent rejuvenation of the military chain of command, thus minimizing any tendency towards inertia and opposition to change. I question the ability of a new structure to respond better than the present one to redirections.

In closing, allow me again to express my thanks for this opportunity to comment on the staff analysis. I realize that the analysis does not represent an Administration position, but that it will be used to formulate a Presidential Decision Memorandum. It is in the interest of providing the President with a complete evaluation that my comments are directed. I look forward to further consultations when the Presidential Decision Memorandum is distributed for comment.

Sincerely,

Cigard alexander

Clifford L. Alexander, Jr.



Department of Energy Washington, D.C. 20585

January 12, 1979

MEMORANDUM FOR James T. McIntyre, Jr.

FROM:

James R. Schlesinger

SUBJECT:

Additional Reorganization Option

The Department of Energy has no comment on the proposed Additional Reorganization Option.



Department of Energy Washington, D.C. 20585

January 8, 1979

MEMORANDUM FOR: James T. McIntyre, Jr.

FROM: James R. Schlesinger

SUBJECT: Reorganization Agenda for 1979

While I continue to agree in principle that Federal natural resource functions should be consolidated, I do not believe that the summary in the draft Memorandum for the President captures the spirit of my comments of January 3. I recommend that the last paragraph on page 10 be altered to read as follows:

"Energy supports the principle of natural resources consolidation but believes that there should be a more critical review of the functions whose performance must be improved by the proposed reorganization, and that such a review might well alter the proposed organization. Specifically, DOE is concerned that management of nonrenewable resources (energy and minerals) should be given more attention in the proposed DNR, that energy leasing and regulatory functions should be streamlined, and that Energy and other affected agencies should continue to be involved in major water resource decisions."



Department of Energy Washington, D.C. 20585

January 3, 1979

NOTE FOR JAMES T. MCINTYRE DIRECTOR, OMB

As promised, attached is the reorganization agenda paper from Jim Schlesinger.

Many thanks. I appreciate the time extension.

Frank R. Pagnotta

Director

Office of the Secretary



Department of Energy Washington, D.C. 20585

January 3, 1979

MEMORANDUM FOR:

James T. McIntyre, Jr.

FROM:

James R. Schlesinger

SUBJECT:

Reorganization Agenda For 1979

I agree in principle that Federal natural resource functions should be consolidated in one Department. However, the information memorandum fails to focus on the functions whose performance must be improved by the proposed reorganization. A more critical review of such functions might well alter the proposed organization.

Specifically:

- o The management of nonrenewable resources (energy and minerals) on the public lands is a major responsibility on which the information memorandum is essentially silent. The alignment of existing organizations proposed within DNR suggests that the leasing and management of those resources will be of secondary priority and that responsibility for these functions will remain scattered among the Bureau of Land Management, Geological Survey, Corps of Engineers, and Fish and Wildlife Service -- each of which would be under a different Assistant Secretary in DNR.
- o The problem is similar, but perhaps more acute, with respect to energy resources on the Outer Continental Shelf. The formation of DNR must lead to streamlining the OCS leasing and regulatory processes. Such streamlining would require functional alignments within DNR different than those proposed in the information memorandum.

o Water resources are crucial to energy development, just as energy development impacts on water quality and use. Under the current organization, the Department of Energy participates in the Water Resources Council. Although it is not clear from the information memorandum, I assume that adequate mechanisms for input by the Department and other concerned agencies to major water resource decisions will be a part of the DNR structure.

A detailed analysis of the functions of a Department of Natural Resources would lead to organizational arrangements aimed at dealing with these concerns. We would be pleased to assist in such an undertaking. Until such analysis has been completed, the current proposal cannot be evaluated as to its effectiveness in managing Federal natural resource functions.

The attachment to this memorandum contains more detailed comments.

SPECIFIC COMMENTS

Functional Relationships

The treatment of individual organizational components in the information memorandum does not fundamentally alter existing responsibilities and relationships and thus does not get to the heart of functional resource management. Indeed, the existing dispersion of such functions among different bureaus and Assistant Secretaries in Interior would appear to be retained or even exacerbated in the proposed DNR structure.

Nonrenewable Resources

Leasing and Management. The information memorandum is silent on the entire crucial subject of development and management of nonrenewable resources (energy and minerals). The Federal lands—for which the DNR, even more than Interior, would be responsible—contain roughly half the Nation's resources of coal, oil, and gas, as well as significant fractions of the Nation's geothermal and uranium resources. Thus the management of the resources on the public lands is a crucial element in the development and implementation of the Nation's energy policy.

Both the Department of Energy and the Department of the Interior have major responsibilities with respect to leasing energy resources on the public lands. The relationship between the two Departments is evolving in positive directions and the creation of a DNR must accelerate that trend. Hopefully, the new organization would lead to more streamlined procedures for leasing and for supervision of leases.

The discussion of the major land management functions focuses on research and on the management of surface resources, to the exclusion of energy and mineral resources. The balancing of the many conflicting claims on all resources, both surface and subsurface, onshore and offshore, should be a central consideration in the design of the DNR.

The discussion of folding the Bureau of Land Management into the Forest Service does not address BLM's role in minerals management (including leasing on Forest Service lands), nor the current interfaces between BLM and the Geological Survey

with regard to leasing questions. The Geological Survey's Conservation Division has supervisory and enforcement functions for resource development that are not addressed in the memorandum.

Development of nonenergy minerals—many of which are locatable rather than leasable—often conflicts with the development of energy resources or with other uses of the Federal lands. Therefore, the proper policies and organizational structures for dealing with nonenergy minerals should also be addressed.

A strong energy and minerals management function must be a central focus of the DNR. That belief is based on an assumption that DNR and DOE can develop a working partnership along the lines currently envisioned by Interior and DOE. If that is not the case, if there is to be more delay in achieving workable leasing arrangements, or if a strong leasing function is not compatible with the thrusts proposed for DNR, then alternative arrangements should be considered.

While minerals research programs are ripe for review, the ways in which that review will be accomplished in DNR should be addressed. Instead, the Bureau of Mines simply disappears from the information memorandum.

The information memorandum is also silent on the potential future location of the Naval Petroleum Reserve in Alaska, and of the Office of Surface Mining. The location and direction of these offices are central factors in the development of future energy and minerals policy.

Offshore Resources

The oceans are now far more important as potential sources of wealth for the Nation than they have been at any time in our history. Much of that potential wealth is in energy. The oil and gas resources of the Federal Outer Continental Shelf are among those most important to the future of the Nation over the next two or three decades, yet the proposed structure provides little confidence that mechanisms will be available to proceed effectively to develop those resources in a timely fashion. The oceans are likely also to be the site of development of many new energy forms -- geopressurized methane, harnessing the potential of ocean thermal

gradients, and so forth. These offshore activities also have a major impact on the coastal and nearshore areas of State and local jurisdiction. To this end, the Coastal Zone Management responsibilities must be fully addressed in any functional realignment. The basic point is that there are important resources and impacts on, under, and at the edge of the ocean which must be addressed by systemmatic review of the appropriate Federal functions in these areas.

It is important to recognize that the management of the Federal resources onshore and offshore raise markedly different problems. The combination of NOAA and unspecified "oceanic programs" suggest a focus on research, rather than on resource management, for the oceans. NOAA has a number of functions which do not relate to natural resources management. Nor would all the expertise necessary effectively to manage offshore resources be available in the proposed grouping. The Conservation Division of the Geological Survey, the Bureau of Land Management, and the Corps of Engineers all have important expertise and responsibility in this area. Much more care should be devoted to the examination of the proper Federal functions with respect to offshore resources, and the proper organizational structure to carry out those functions.

Water Resources.

The water programs, like the energy and minerals programs, are ripe for review and redirection. However, the arrangements proposed in the information memorandum may create a number of problems.

First, the interaction of water and energy is vital. The Water Resources Council has served as a vehicle for input to water policy by the Department of Energy and other affected agencies throughout the Federal establishment. Such coordination, and, therefore, some similar vehicle, are essential if energy and other water-dependent and water-related concerns (such as power marketing) are to receive proper consideration in the formulation of the Nation's water policy.

It is not clear that all of the functions listed in the information memorandum should be consolidated. The Corps of Engineers has a number of functions with respect to offshore activities that have no analogues in the civilian agencies.

The water functions of the Soil Conservation Service, primarily erosion and sediment control, are analogous (or even identical) to functions of the Bureau of Land Management, and are related to the management of surface resources, not water as such. Other functions of SCS have no relationship whatsoever to Reclamation and Corps programs, are analogous to land management programs, but serve private clients on private lands.

Human Resources

Although not mentioned explicitly, it is implicit in the numbers that the territorial activities and the Bureau of Indian Affairs would be transferred to the DNR. These are human resource functions, analogous to those of HEW, and have only peripheral relationships to the natural resource functions of Interior or DNR. The information memorandum should address the considerations attending the proper placement of these functions.

Summary

These reorganization proposals should begin with an examination of the functions to be performed, and propose structures along functional lines. Such an analysis could lead to proposals different from those presented in the information memorandum.

The management of multiple resources must be the key to the structure of the Department of Natural Resources. And that structure must reflect the markedly different management and conflict resolution dimensions of onshore and offshore resources.

With the creation of the Department of Energy, streamlining the civil service system, and creating Departments of Education and of Natural Resources, the major mission-oriented reforms will have been accomplished. There remain, however, a number of functions—like those of the Bureau of Mines and some of those of the Department of Commerce—which seem simply "left over". The difficulty in formulating proposals with respect to functions like nutrition and commerce may stem in part from the lack of clearly established overall strategies for organization of the Government. Perhaps more attention should be given to the development of an overall strategy.

This suggests that the final proposals should be viewed as a whole. A systemmatic review of the remaining functions should begin with an examination of the basic thrusts of Federal policy in these areas. Such an examination would include energy leasing and activities with respect to nonenergy minerals, and might lead to proposals with greater attractiveness and workability.

HEALTH, EDUCATION & WELFARE

NO COMMENTS WERE RECEIVED FROM THE DEPARTMENT OF HEALTH,
EDUCATION AND WELFARE ON THE ADDITIONAL REORGANIZATION
OPTION.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE WASHINGTON, D. C. 20201

January 8, 1979

MEMORANDUM FOR JIM MCINTYRE

FROM JOE CALIFANO

SUBJECT: Reorganization Memo on Food and Nutrition

Your January 5 memorandum makes two recommendations in the area of food and nutrition. It recommends the designation of the Department of Agriculture as the lead agency for developing a national food and nutrition policy, and it recommends that the President direct OMB and DPS to develop administrative and legislative proposals to give greater emphasis to nutrition policy in USDA.

I believe the one page of the draft decision memorandum that discusses these issues is so cursory and, in fact, misleading that it should not go to the President in its present form. Second, I strongly oppose the recommendation that USDA become "the" lead agency for developing a national food and nutrition policy. And I object equally vehemently to your second recommendation which implies that the only question worthy of decision by the President in the field of nutrition is how to strengthen the attention nutrition receives at USDA.

The Draft Decision Memorandum

The one page of discussion that the draft memo contains on the subject of food and nutrition provides the President a wholly inadequate basis even to understand the issues at stake, let alone make a decision on these questions. (Indeed the quality falls so far short of the high standards set in considering the other two sets of reorganization recommendations in your memo that I urge you to drop this section altogether).

Specifically, however, the discussion:

o does not discuss the obvious fact that USDA and HEW have very different missions

and sets of expertise in this area and that what is needed is a better delineation of responsibility between the two agencies, not the abstract declaration of a "lead agency,"

- does not discuss the inherent conflict of interest in having the Agriculture Department, which is responsible for promoting the commercial interest of the food industry, also responsible for protecting the consumer with respect to nutrition and food safety.
- o does not acknowledge the inextricable relationship between nutrition and disease prevention and treatment or the recent important steps HEW has taken in the area of nutrition and health;
- o does not discuss the demonstrably superior capacity that HEW possesses with respect to scientific expertise in clinical nutrition research and in scientific capability with regard to food safety research;
- o does not reflect the alternative approaches possible in this area, many of which have been set out in OSTP papers and in a memo from me to you more than a year ago.

The enclosed memorandum sets out our objections in greater detail.

The Recommendations

I believe your recommendation that USDA be formally designated the lead agency for developing food and nutrition policy is extremely unwise. It is no criticism of USDA to say that it has been dominated by producer interests, since practically all of USDA's other program responsibilities relate to producer interests. While the current leadership at Agriculture has shown refreshing sensitivity to consumer interests, it is more likely in the long run that the pressing demands of USDA's producer constituents will be difficult to resist.

Indeed your second recommendation recognizes that consumer interests within USDA are relatively weak at the present time and need to be strengthened. Until we see whether this goal can be accomplished—at this point it is little more than a hope—I believe your recommendation to designate USDA as the lead agency for food and nutrition is at best premature and at worst extremely dangerous.

In the real world, I believe it is hopelessly unrealistic to expect--over the long term--a Department whose programs are dominated by producer concerns to be an effective spokesman for consumers and nutrition.

As the enclosed memorandum discusses at some length, the reorganization staff could profitably concentrate on defining the appropriate nutrition activities that HEW should develop and those that USDA should undertake. The memo suggests an illustrative, though far from exhaustive division of responsibilities. This Administration would make a significant mark in this area if it strengthened the various nutrition activities of the federal government in the specific organizational settings in which they will flourish.

The abstract placing of the "lead" in this area with a Department whose major program responsibilities are directed toward production does not contribute to strengthening nutrition activity and contains the potential for seriously undermining the goals we both seek.

I strongly oppose your first recommendation and request that—if these recommendations are indeed to be placed before the President—the analysis provided to him be substantially reworked along the lines set out in the enclosed memo.

Enclosure

Comments on Draft Reorganization Decision Memorandum of January 5

Both the OMB information memorandum and draft decision memorandum on the reorganization agenda for 1979 contain a proposal for a department of food and agriculture with an enhanced mission in nutrition research and policy. Since this is the only project directly related to HEW, we will confine our comments to that section of the memorandum.

The memorandum appropriately identifies a number of shortcomings in the federal government's nutrition program. But the succeeding analysis is seriously flawed by an apparently preconceived notion that the only way to strengthen nutrition policy and programs is to augment the Department of Agriculture's mandate in nutrition.

In fact, both Agriculture and HEW have legitimate missions in nutrition. Agriculture's interest derives primarily from its contributions to the food production system. HEW's concern results from nutrition's function as a key determinant of health and disease.

The analysis of the President's Reorganization Project, which leads to their recommendation on broadening Agriculture's mandate, is narrow. While it does not recommend transfer of programs from one department to another, it does note the only transfers which were seriously considered were those which placed additional programs in Agriculture. In fact, there are compelling administrative and substantive reasons to consider the transfer of programs from Agriculture to HEW, including the Women, Infants, and Children's Feeding Program and the Food Stamp Program.

Moreover, the paper does not acknowledge the major problems that would be created by designating Agriculture as the lead for nutrition research:

- the much more difficult time USDA would have in attracting the country's best scientists to work on nutrition research;
- the inevitable duplication that would result between USDA and HEW in this field.

The Department of Health, Education, and Welfare has the strength and experience for clinical nutrition research and can attract the best scientists to the field. Furthermore, nutrition education must of necessity continue to be a component of many of HEW's direct service delivery programs — including health services for underserved populations, for the elderly, and for children.

In many areas, the PRP memorandum is simply out-of-date. It fails to discuss substantial activities which HEW has recently undertaken in nutrition, including the formation of the Department's Nutrition Coordinating Committee, the identification of a Nutrition Coordinator, the identification of a nutrition research agenda through the work of an NIH Nutrition Coordinating Committee, the development of a joint HEW/USDA proposal for a nutrition status monitoring system, the NIH Conference on Nutrition Research in the 1980's held last year, the Conference on Nutrition Education in the 1980's planned for this summer, and the development of an HEW/USDA liaison group on nutrition policy.

While the current leadership of the Department of Agriculture has shown refreshing sensitivity to human health needs in nutrition programs, food producer policy and needs have in the past dominated nutrition policy at USDA. It is likely that the pressing demands of the Department of Agriculture's producer constituents will be difficult to resist over the longer run in any expanded efforts to establish nutrition policy.

The Reorganization Project's proposal to rename USDA a department of food and agriculture and to give it the lead for nutrition policy is likely to lead to producer-oriented nutrition policy as well as duplicative nutrition research between the two departments. On the other hand, if PRP concentrated on rationalizing the missions of HEW and Agriculture, they could contribute to constructive changes in the government's approach to food and nutrition. (The views of the Office of Science and Technology Policy would be very useful in this type of analysis.)

We urge that PRP revise its analysis to concentrate on the appropriate division of activities between Agriculture and HEW in nutrition research, nutrition education, and nutrition surveillance. Starting from the point of view that Agriculture's primary concern in nutrition should be directed toward the production of food and the development of better food, and HEW's activities should concentrate on the health effects from nutrition, we propose, as a starting point, the following division of responsibilities. The list is illustrative, and it is far from exhaustive.

1.) In research

HEW: investigate how best to use nutrition in maintaining human health, preventing disease, and treating disease. Examples include:

- investigations of the relationship between nutrients and enzymes and hormones at various stages of human development.
- biomedical and behavioral effects of nutrients and their relationship to health and chronic diseases such as cancer, heart disease, hypertension, obesity, diabetes, and alcoholism.
- better medical treatment of nutrient deficiency diseases due to genetic or environmental actions.
- proper infant feeding and the role of nutrition as antecedents in adult health.

Agriculture: determine animal, plant, and soil contributions to nutrition and explore ways of enlarging the supply and use of nutritous foods, including research into:

- growing foods with more nutrients.
- determining more extensive food uses for highly nutritious crops.
- analyzing composition of foods.

2.3 In food and nutrition education

HEW: guidance in dietary requirements for good health -- for the general population and for specific segments of the population, such as the elderly, the disadvantaged, and people subject to health hazards as a result of diet.

Agriculture: consumer education in the purchase of high quality foods and in the economics of food purchasing.

3.) In nutrition surveillance

HEW: Use epidimiological techniques to evaluate nutrition and health, to identify pockets of disease resulting from poor nutrition, and to assist federal, state, and local agencies in correcting the problems.

Agriculture: monitor foods people are purchasing to advise producers on better crop planning and more efficient distribution of food.

Approaching the organizational question from this framework would lead to a fair examination of the questions surrounding nutrition and is far preferable to consideration only of "proposals to increase the emphasis on nutrition research and policy in the Department of Agriculture." It would also emphasize the need for cooperation among the agencies involved in nutrition and mechanisms for fostering that cooperation.

Although we have no reservation about OMB examining the question of how the government can improve its programs in nutrition research and policy, we do object to defining one set of alternatives as the only one requiring examination in the study. The Secretary's memorandum of November 17, 1977, pointed to a number of different alternatives that the government could undertake to improve its administration of such food and nutrition programs as the Women, Infants, and Children Feeding Program and the Food Stamp Program. At a minimum, these suggestions should be on the agenda for review by the OMB staff as they examine the nutrition question.

The current presentation of the issue fails to address the problems and alternatives that confront us. importance of nutrition in preventing disease and improving health necessitates a leading role for HEW in some, but not all, areas of nutrition. Any rational examination of reorganization for food and nutrition must acknowledge and take into account the legitimate differences between the interests of the food producers and processors and the health consequences of food and nutrition. The decision memorandum for the President should portray more accurately the choices he should consider in examining the nutrition question. OMB staff should substantially revise the memo and options presented to the President and should start this year's work with a more open agenda in this area than they appear to have at this point.

NO COMMENTS WERE RECEIVED FROM THE DEPARTMENT OF
HEALTH, EDUCATION AND WELFARE ON THE CABINET
INFORMATION MEMO



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, D.C. 20410

January 12, 1979

Honorable James McIntyre
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Jim:

In response to your memorandum of January 11, 1979, which outlined the additional reorganization proposal (Option 3), I must state that this latest option is unacceptable.

With respect to those elements that deal with economic development issues, I find this latest option a retreat from the logic, and the intensive analysis which resulted in the original Department of Development Assistance Proposal, now called Option 1. Option 3 ignores the central question of how best to meet local development needs, and it fails to fulfill the President's objectives of rational reorganization or fulfillment of his Urban Policy. It blatantly disregards his call for the comprehensive reorganization of Federal local development programs.

Specifically, this latest option fails to recognize the inextricable and vital link between community development and local economic development activities. If implemented, it would not encourage the public/private linkages necessary for successful long-term local economic revitalization. It is doubtful that it will assure targeting of limited Federal development resources to distressed areas. It fails completely in meeting the President's objectives to coordinate, simplify and improve the delivery of local development assistance to the Nation's communities.

Finally, it changes the proposed National Development Bank from a local economic development instrument to a vehicle for general business advancement with no apparent regard for place specific problems and issues.

I must restate my position on the question of reorganization of local development programs. Creation of a comprehensive Department of Development Assistance which links community development, economic development and housing assistance in one Department is the only option which would encourage a coherent development approach designed to promote long-term economic expansion, private/public job creation, and fiscal stability in local communities. It is also the one option that provides virtual one-stop service to localities.

For three decades, local, state, and Federal officials, and the private sector have been forced to grapple with a Federal development assistance structure characterized by fragmented programs, inefficient and duplicative delivery systems, excessive administrative burdens, and unclear or overlapping authorities and jurisdictions.

The Carter Administration rightly and wisely pledged to attack this tangle of authorities with the goal of making Federal local development aid the kind of aid that had the potential for making local communities more self-sufficient.

As I stated in my memoranda of January 2 and January 8, this goal can be accomplished only if the necessary critical mass of development resources is not splintered among a host of programs; only if authority is matched to responsibility; and, only if Federal Local Development Assistance involves the integrated use of economic and community development with housing programs in an easily used programmatic framework.

The new Option 3 fails to meet even the most marginal tests with respect to efficiency, coordination, and equity. As indicated below, it suffers from significant problems in five key areas.

COMMUNITY DEVELOPMENT AND ECONOMIC DEVELOPMENT

A recent Rand Corporation analysis of the impact of Federal programs on local economic development stated clearly and succinctly that full growth and economic revitalization are closely linked to the availability of services, housing, and public infrastructure. Their study has been confirmed by other reputable analysts, as well as the locational decisions of countless thousands of businessmen. To put it simply, economic and community development are two sides of the same coin. Any effort to separate them as proposed by Option 3 would result in wasted Federal and local resources and lost public and private opportunities to make distressed areas more viable.

PUBLIC/PRIVATE LINKAGES

Any arbitrary split between public and private community revitalization programs as proposed by Option 3 would be capricious. It would be contrary to the position of corporate executives who have indicated the need for coordinated local public private development strategies if they are to stay in, expand in, or relocate to distressed areas. It would limit the ability of the Federal government to leverage its resources with those of cities and the private sector. It would cause numerous costly delays and inefficiencies in Federally-assisted private sector projects. It is contrary to the partnership objectives of the urban policy, and will be viewed as a set back for rational organizational principles.

If the Carter Administration's new partnership to conserve America's communities has any meaning, it is that the Federal government's grants to local communities (e.g., CDBG), the discretion of the expenditure of these grants, and the private sector's commitment of its massive resources should be coordinated together in support of local development and private job creation. Accordingly, a reorganization proposal, such as Option 3, which would arbitrarily separate the local communities' "public" tools for development from the private

sector's tools, runs counter to the new partnership and can only frustrate our efforts to use public funds as a leverage for private sector investment.

TARGETTING

As proposed by Option 3, the public/private split would frustrate our ability to focus scarce Federal dollars on distressed areas, a key element of the urban policy. Putting the National Development Bank grant and subsidy authorities in the proposed Department of Trade and Business Development would diffuse its purposes, because of the Department's wide ranging, disparate objectives. Further, putting it in the proposed Department fails to recognize the potential of the Department of Trade for spreading limited Federal resources away from distressed areas. Indeed, based on their current performance, the programs assigned to the new Department will not be targetted well, and will not be focused, to the degree necessary, on distressed communities or distressed places.

Finally, if the loans are not made through a Local Development Corporation, as proposed in last year's Bank proposal, numerous opportunities for coordinated and leveraged local public/private projects would be impeded or lost. The Federal government could end up funding projects which are inconsistent with local community priorities and objectives. This will prove harmful not just to revitalization priorities, but to the community itself, and would in all probability, not receive the support of local public officials.

COORDINATION

Option 3 proposes a coordination nightmare. Sponsors of projects requiring combined public and private sector assistance would continue to have to go to two Departments, deal with two or more staffs, and two or more sets of disparate regulations. Opportunities for coordination between the public and private sector would be Opportunities for relevant program minimized. consolidation strategies would be ended. to develop comprehensive place-specific economic development strategies would be frustrated. short, we would fail to carry out the President's commitments to process simplification, thus leaving local and state officials, as well as the private sector, the tangled mess we inherited from our predecessors, somewhat more tangled.

THE LOCATION OF THE NATIONAL DEVELOPMENT BANK

The Development Bank, as proposed in Oprtion 3, would not be able to use CDBG and UDAG grants effectively to leverage private sector investment. Further, given its proposed focus and its separation from local government, the Bank would not be capable of easily securing local public sector involvement and commitments. In this context, the Bank would not be able to assure the consistency of its assisted projects with developed local priorities. In effect, as spelled out by OMB, this latest proposal would magnify the worst problems associated with separating economic from community development, and Federal, public and private sector assistance efforts.

DDA would provide the only logical location for a Development Bank. The Development Bank, in DDA, would be closely linked to the proposed consolidated loan and grant program. Because of this fact, it could offer localities a coordinated

array of incentives to the private sector to aid in the revitalization of distressed areas. A Development Bank in DDA would be strategically tied to comprehensive local policies and programs, not to scattered and dispersed projects designed without community involvement.

Locating a Bank in DDA would permit the development of comprehensive strategies for individual community needs, strategies tied to local conditions, necessary public/private partnerships and the leveraging of private investment.

TRADE ISSUES

With respect to those elements in this new option that deal with "trade" issues, I have several reactions.

First, these functions are in no way necessary to meeting the basic principles of the PRP for creating an effective Federal local development assistance capacity. That is to say, resolution of the placement of these trade functions need not be mutually exclusive with OMB's original "preferred option" for a Department of Development Assistance in their December 15 draft.

Second, the notion of improving the Administration's capacities to manage its trade policies as a key component of its overall commerce strategy would seem to have a great deal of importance and certainly the Commerce Department would appear to be the logical place to house such functions. But, resolution of the placement of these trade functions has no real relation to the issue of the best location of the Federal Government's EDA, SBA, Farmers Home Loan, and Development Bank resources. As the original

OMB "preferred option" suggested, these tools should be placed with the Federal government's current \$30+ billion dollars of community development, economic development, and housing programs. To do otherwise makes no operational sense.

SUMMARY

I believe that the only realistic course of action now available to us is to choose between a comprehensive Department of Development Assistance (Option 1) or no reorganization at all.

The least acceptable approaches are those which purport to consolidate local development programs but in reality would have the effect of perpetuating the artificial distinction between community and economic development, fragmenting limited Federal local development assistance; and reversing the growing movement toward effective local public/private development partnerships.

To carry out the President's commitments to reform in this area, and to do what is in the best interest of the Nation's communities, we must proceed with a reorganization proposal which would provide an effective mechanism for state and local governments to use the critical core of Federal local development assistance, facilitate the active participation of the private sector in locally derived development plans and projects, and encourage communities to focus on the long-term questions of private sector job creation and retention, tax base expansion and local economic stability.

I believe we have this kind of proposal in the Department of Development Assistance (Option 1). The open question is whether we have the determination, the resolve, and the commitment to proceed with it. If not, we should abandon any effort to appear to reorganize, and do nothing.

Sincerely yours,

Patricia Roberts Harris



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, D. C. 20410

January 8, 1979

Honorable James T. McIntyre, Jr. Director
Office of Management and Budget
Washington, D.C. 20503

Dear Jim:

Your draft decision memorandum of January 5 is a disappointment. After 20 months or more of intensive effort, your staff has come to one inescapable conclusion, namely, that any reorganization of development assistance that will be worthwhile must combine economic development, community development, and housing. Yet you have not presented to the President, as a single recommended option, the one alternative that clearly supports that finding—the creation of a Department of Development Assistance.

Worse still, I do not understand how you can present, as a second alternative, an option that clearly violates the PRP's major finding. Your staff has repeatedly documented the validity of the economic development/community development/housing nexus in Harrison Wellford's earlier paper. The so-called DCED option is an attempt to split economic development from community development and housing; and is a rejection of 20 months of careful analysis by your own staff.

Even if that split represented sound public policy—and certainly it does not—the fact is that the DCED option causes even greater overlap and confusion than presently exists. As your own analysts point out, HUD's community development program accounts for more economic development expenditures than EDA. Therefore, the attempt to group economic development functions at Commerce and CD functions at HUD would not actually take place. Obviously, this is no real option, and the alternative should not be presented to the President. For precisely the same reasons, the new third option should also not be given further consideration.

I am equally disappointed that you have failed to provide a careful political analysis to accompany your recommendations. Clearly, any reorganization will have its political drawbacks; therefore, it makes sense to go forward only with one that is worth accomplishing. Only the DDA option meets that test, as your PRP analysts have continually pointed out. Moreover, the second and third alternatives make no sense politically at

all. My own assessment of the matter is that the chances of selling a DDA on the Hill are relatively good, and I am prepared to devote whatever resources are necessary to it.

My other serious reservation regarding the latest draft is that it ignores any truly critical analysis of the local development options, particularly the option to create a Department of Commerce and Economic Development ("DCED"). In this respect, I believe this memorandum's reliance on "Agency Comments" for the purported disadvantages of the options under consideration is a step backward from the draft I reviewed last week, and indeed, may do a great disservice to the President by depriving him of the OMB's candid assessment of the options under consideration.

For example, the memorandum states on page 20 that the proposal for DCED "is based on the presumption that economic development and community development are really different and that economic development must be clearly associated with the trade information, and sectoral analysis functions in the Commerce Department." The impression which is left with a reader is that you are in substantial agreement with these presumptions. In fact, the hard evidence directly controverts these presumptions, particularly the implication that the Block Grant program cannot or, indeed, does not now perform many, if not all, of the same functions as EDA. It is my understanding that the fact that CDBG does indeed perform the same functions is a conclusion reached by your staff after some 20 months of work and is one I share, as I made clear in my submission to you on January 2, 1979.

This presumption also is directly contradicted by facts set forth on page 14 of the latest draft decision memorandum with which I agree, specifically, that most EDA funds have gone to public entities for public facilities, while significant and increasing amounts of CDBG funds are being used for economic development. For graphic examples of some of the uses of CDBG as an economic development tool, I urge you to review once again the attachment to my earlier letter. These examples establish that the CDBG program is as much or more an economic development or business assistance tool as EDA, since it can be, and is being used flexibly to stimulate private sector job creation and investment by clearing land, providing long-term financing, constructing infrastructure, supporting local development capacity and even by providing equity. No matter how strong the effort to typecast the Block Grant program, the facts make

it clear that it is not just a community facilities program. As a result, I must object strongly to the characterization of the CDBG program contained in Exhibit V since the Block Grant program is, in fact, being used, for among other things, for economic development loans.

My comments concerning the fallacy of the second presumption for a DCED, namely that economic development programs should be linked within one Department with trade and informational programs, have already been set forth in detail on pages 7-8 of my letter of January 2, 1979. I believe my comments demonstrate that the importance of strict organizational linkages between these functions is of little or no consequence, especially 1) when compared to the potential detriment that would occur (through the creation of a DCED) by expanding the existing division between economic and community development functions and 2) when it is acknowledged that the trade, information, and "other business assistance functions of Commerce will "remain organizationally separated" within a DCED.

I also understand the analysis performed by your staff indicates there are no compelling reasons to associate within one Department the purported economic development functions of EDA with the trade, information and sectoral analysis of the Commerce Department. Accordingly, unless you are personally in agreement with the presumptions for a DCED set forth on page 20, I strongly urge that they either be deleted or modified so as to make clear that you do not accept them. Obviously, I hope that is the case.

The remainder of the analysis of the proposal for a DCED is similarly lacking in critical, incisive comments. For example, on page 21, it is stated that a so-called advantage of the DCED option is that it would concentrate economic development resources at the Federal level, much as option 1. However, the very same paragraph states that, unlike the DDA, a DCED would not include the CDBG program, which is acknowledged to be one of the largest programs in the Federal arsenal currently providing assistance for economic development. Since we must all recognize that prospects for Congressional approval of a National Development Bank can hardly be taken for granted, the purported advantage of concentrating economic development programs in a DCED is as much an advantage as creation of a Department of Defense would have been if the Department of the Navy had been omitted from DOD. The fact is that this purported advantage of a DCED is really a disadvantage when compared to the economic development

consolidations which would accrue from a DDA, even without considering the additional disadvantages which will result from a failure to link community and economic development programs in DCED. Even more ridiculous is the proposal for a modified DCED, which would leave two of the largest economic development tools (UDAG and CDBG) outside the so-called economic development agency, since it would be like leaving the Navy and the Air Force out of DOD. In my opinion, this option, like the DCED, does not even merit the President's attention. **

I also fail to understand how one can support the argument made on page 22 that an advantage of a DCED is that "by separating economic from community development, (the) option may help to ensure the business focus of economic development programs," when the memorandum also acknowledges openly that "most of EDA's funds now go to community facilities," and that CDBG, the so-called community facilities program, is used to provide more than \$500 million a year to leverage private sector investment and create private sector jobs. Furthermore, both this statement and the final purported "advantage" of a DCED set forth on page 22 ignore the basic principle on which I believe we agree a reorganization of development assistance must be based: the principle that a place-specific integrated development focus is necessary, i.e. an emphasis on aid designed to alleviate the development problem of various types of areas.

As I have stated repeatedly, a focus on general economic growth, on economic stability or on trade is not the function of the local development assistance programs; this type of focus is misplaced and too broad and perhaps should be the focus of a reconstituted Department of Commerce. What is needed in the development assistance area instead is a focus on integrated development aimed at strengthening the long-term social and economic base of local communities and the creation of private sector jobs. Only in this way can we avoid having the problems of Newark, the South Bronx or Detroit repeat themselves in years to come in Phoenix, San Jose, or Houston. In this opinion, I believe you will find I am joined literally by all the members

^{**} A similar argument is applicable to the next purported advantage of a DCED. Estimated savings of \$7 million by creation of a DCED should, in my opinion, be a clear disadvantage when compared to the \$43 million that the memorandum estimates will be saved by creation of a DDA. The memorandum also fails to acknowledge explicitly the substantial differences in estimated staff savings between a DDA and a DCED.

of the Cabinet having related responsibilities and specifically by the Secretary of Labor, who agrees that it is these subnational place-specific problems which must be addressed in a coordinated fashion by the development programs of a DDA and the employment and training programs of DOL.

Furthermore, I believe it would be very helpful to the President if the final memorandum contained a chart similar to the one set forth in Exhibit VI to demonstrate the kind of development assistance delivery system we would have after creation of a DCED. I am certain the President will be interested in seeing the vast number of lines of authority which would still be confused after creation of a DCED.

I have only a few additional comments to offer regarding the agency comments set forth on pages 23 and 24 of the memorandum, since I believe my earlier letter makes clear my principal views. **

First of all, the memorandum does not include any indication that the disadvantages of the proposal for a DCED will be listed at any point in the memorandum. More importantly, I regret that the Department of Commerce has taken the position that economic development functions will be "contaminated" by community development activities because of the "fear that HUD's constituents and 'social welfare ethics' would predominate." I had assumed, apparently incorrectly, that this type of simpleminded analysis had no place in the Carter Administration, although I am certain that the President will ignore such statements. I shall state only that apparently HUD's constituents and its social welfare ethics have not proved to be an impediment to the UDAG program, which in just eight short months has resulted in the award of over \$560 million in grants, which we expect will generate approximately 225,000 jobs and leverage almost 3.5 billion in private investment, while at the same time preserving the environment, providing decent wages

For the record, I would like to restate my opinion that the pending EDA reauthorization is irrelevant to the development assistance option, since one of the benefits of the reorganization plan is that it can proceed largely without statutory authorization.

for laborers and furthering the economic and social opportunities of the poor, the disadvantaged and minorities. I also would be quite happy to have you speak to the heads of some of the largest private sector corporations in this country to ask them whether their involvement in this program is "contaminated" by our so-called "social-welfare ethics." To paraphrase Justice Stewart, we may not be able to define a social-welfare ethics, but we know it when we see it and we are not ashamed of it.

Finally, I regret that my earlier comments are not reflected with precision on page 24 of the memorandum. My earlier letter makes clear that we support consolidation of the rural community development programs; it is only the specific proposal to consolidate the economic development programs on which I must reserve judgment until we have an opportunity for additional review. Next, we oppose the so-called Commerce-based option not because it splits "functions," but rather because it would divide and fragment arbitrarily the available local development tools. Moreover, we believe the so-called Commercebased option would not just make more difficult consolidation of planning assistance, but that it would not provide for any consolidation of these programs and, therefore, would preclude any potential savings from a consolidation of planning assistance. Furthermore, our position is that a DCED would leave completely fragmented between FmHA and HUD rural community facilities programs and continue the split between urban and rural programs. I also see no need for reference to HUD's position on its purported shortcomings since all references to these shortcomings have been deleted from the latest draft.

Finally, while I appreciate the memorandum's recognition of our position that FmHA housing programs, or at least multifamily housing programs, should be consolidated in a DDA, I regret that the President will not be provided with a full exposition of the advantages and disadvantages of this proposal, particularly since the Secretary of Agriculture agrees with our position regarding the need to combine hosuing with economic and community development programs, subject to certain useful reservations he has regarding the delivery system for rural housing. Accordingly, I strongly urge you to revise the decision memorandum to incorporate the mutually held view of the Departments of Agriculture and HUD that housing and development programs should be integrated in a DDA.

SUMMARY

I am enclosing a revised paragraph to substitute for the one at the top of page 24 which provides the President with HUD's position on these issues. I would prefer, however, that the President receive more of OMB/PRP's candid assessment of the options under consideration. You already have my detailed comments on the options, and I hope that my last letter, its attachments, and this letter will be attached to the decision memorandum which is forwarded to the President.

Sincerely yours

Patricia Roberts Harris

amin Cott Hair

Enclosure

Substitute HUD View

HUD supports the creation of the DDA as the only option which brings together all of the necessary development resources to make an effective attack on subnational development problems. HUD reserves final judgment on the content of program consolidation until further information is available. HUD believes that community development, economic development, and housing must be in the same department to make development assistance work as an integrated, place-specific approach. HUD opposes the Commerce-based option because it would expand the artificial distinctions between economic and community development programs and continue the present fragmented development situation. Recipients often use community and economic development funds for the same purpose and do not distinguish between them in practice. HUD argues that much of Commerce's economic development grant funds go for community facilities and that more than \$500 million of HUD's CDBG program go for economic development purposes. HUD also opposes the Commerce-based option because unlike the DDA proposal, it would not allow a consolidated planning assistance program and would forgo much of the associated state and local savings which approximate 30 percent of the current administrative costs of development programs. The Commerce option would also retain the current split in rural community development programs, where 75 percent of the funds remain outside of USDA. HUD believes that only the DDA option will provide one stop shopping, achieve significant savings, gather a critical mass of resources, significantly streamline the process and meet the Carter Administration's commitment to a "new partnership." HUD and USDA agree that FmHA multifamily assistance programs should be combined in the DDA as development tools. HUD believes the only realistic alternative, in view of political problems attending each plan, is between DDA and no reorganization at all. Least acceptable of all is the approach which purports to consolidate economic development programs without really doing so.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, D.C. 20410

January 2, 1979

79 JAN 3 A10: 16

MANAGE ENT & BUDGET

Honorable James T. McIntyre, Jr. Director Office of Management and Budget Washington, D. C. 20503

Dear Jim:

I welcome the opportunity to comment on the options set forth in the memorandum entitled "Reorganization 1979" which are under consideration for the reorganization agenda in I regret to say that I find the memorandum's analysis of the issues raised by the potential reorganization of the development assistance programs generally not as well developed as the thoughtful and careful oral and written exposition of the relevant issues we have previously received from Messrs. Wellford and Salamon. Most importantly, the memorandum fails to recognize explicitly that only the proposal to reorganize Federal community, economic, and housing programs in a new Department of Development Assistance will fulfill the President's campaign commitments and is the only proposal which would result in long term benefits so substantial as to outweigh any potential short term political costs and administrative disruption. Moreover, the memorandum fails to state explicitly that the alternative proposal to consolidate certain economic development programs in a new Department of Commerce and Economic Development would increase fragmentation of local development efforts and run counter to the commitment to streamline the Federal bureaucracy. In addition to these general observations, I have the following more detailed comments.

A. The Problem

The memorandum ignores a critical finding on which I believe we all agree and on which the President's commitments to continue and improve the efficiency of delivery of local development programs must rest: the finding of the President's Reorganization Project that, well into the foreseeable future, the nation will continue to experience a variety of development problems and needs which have significant national

implications. These problems include (1) inadequate and aging infrastructure and transportation systems, altered modes of production and changing demographic patterns, all of which threaten the economic health of the older industrial regions of the country; (2) inadequate public and private facilities in rural areas and small towns, most of which have been ignored for far too long; (3) pockets of chronically unemployed who are caught in the movement of businesses from older urban or suburban areas; and (4) a host of other problems created by, among other things, rapid growth, the decline of specific industries, regulatory actions and/or trade competition.

These problems should not and cannot be viewed separately. Each of them will continue into the foreseeable future, and they are often interrelated. Accordingly, any memorandum to the President should inform him that, as a group, these problems will require continued Federal assistance to State and local governments and the private sector in order to assure adequate community facilities and services, adequate housing, a reasonable level of local prosperity and the promotion of jobs in the private sector. In my opinion, the memorandum is seriously deficient in its failure to inform the President of these central realities.

The memorandum also fails to recognize that in order to respond effectively and efficiently to these local development problems, an integrated place-specific development approach is necessary. Broad economic policies aimed at keeping the national economy growing while controlling inflation simply are inadequate if we are to deal with these local problems. I am certain you also recognize that the effect of general fiscal and monetary policies is too broad and imprecise to take account of particular local circumstances. Nor will outright cash transfers alone solve these local problems, since they fail to address the long run problems of general physical decay and local economic contraction. Instead, what is needed is the fulfillment of commitments made in the President's urban policy message: an integrated development approach aimed at the overall social and economic vitality of local communities which has at its core the objective of private job creation.

This approach is the only effective way of dealing with the local development problems outlined herein; however, its success will depend in large part on two critical factors:

- 1. The necessity of harnessing a critical mass of resources. As you well know, our resources are limited; thus, to use these resources effectively, we must combine them in support of local strategies, rather than splinter them among several Departments; and
- 2. The realization that private sector job development in specific places is integrally related to the development of community facilities, infrastructure and housing and must be addressed in a coordinated fashion if we are to make substantial progress in combatting local development problems.

The analysis presented in the memorandum does not address adequately the importance of this integrated development approach, ignores the importance of massing the limited resources and, therefore, may cause the President inadvertently to adopt a reorganization approach which is doomed to failure.

B. Alternatives

Alternative 1. Department of Development Assistance

General Comments:

The memorandum's analysis of the Department of Development Assistance is regrettably inadequate. Specifically, it fails to present the President with either an adequate explanation of the principles which should underlie the proposal or a clear-cut statement of the manner in which the DDA alone, among all the options discussed, fulfills the President's commitments.

The memorandum should state specifically that the central principle for a DDA is a recognition that we must bring within one organizational framework a mass of development resources aimed at the long term economic and social health of local communities. Only creation of a DDA can provide a central focus for Federal efforts to promote the long term viability and economic independence of States, regions and local communities and, at the same time, make real the Carter Administration's commitment to a "new partnership" with State and local governments and the private sector in support of an integrated developmental approach to

the problems of local communities. This point is critical both to an understanding of the problems inherent in the current system of delivering local development programs and a solution to those problems.

Organizational Changes:

The organizational changes you proposed merit our support. However, if the new Department is expected to initiate comprehensive rural and small city strategies, a reorganization of FmHA "non-farm" housing programs into a DDA, or at least the multifamily programs, would be in order since housing plays a critical role in creating local development strategies and in private sector locational decisions. Representatives of rural and small city groups also have stressed repeatedly that the housing and infrastructure problems and needs of small cities and rural towns or villages are more like those of other larger communities than the problems and needs of farm areas and farms.

At the present time, there is significant overlap between HUD and FmHA housing programs in many smaller cities with fewer than 20,000 population; obviously, it will be increasingly difficult to justify existing differences in coverage and processing after any reorganization. Therefore, I would urge you to consider seriously the possibility of including at least FmHA multifamily housing within the proposal to create a DDA.

Programmatic Changes:

The proposal to merge several rural community development programs into two such programs has considerable merit, particularly in light of the paperwork small cities and rural areas presently encounter and the unlikely prospect of funding. However, we have not yet had adequate opportunity to address the many complex issues which are raised by the proposals to consolidate various economic development programs and cannot provide you with a final opinion on the merits of this approach. Moreover, even the most well-intentioned consolidation of programs, without a structural reorganization across agency lines which will provide one agency with a critical mass of development resources, is not likely to reduce fragmentation, enhance the Federal Government's ability to ensure balanced economic and community growth or improve the delivery system for the

vast majority of users. Accordingly, I am reserving judgment on the propriety of consolidation of economic development programs until such time as the reorganization issue is adequately addressed and resolved and suggest that any memorandum to the President make clear that successful program consolidation is dependent on structural reorganization.

Advantages and Disadvantages:

My greatest concern relates to the analysis of the purported advantages and disadvantages of the proposed DDA. Specifically, on the one hand, I find the statement of the advantages not nearly as well developed as I believe is warranted; on the other hand, the statement of purported disadvantages of the DDA is misdirected and ignores the improvements the Carter Administration has made in 23 months at HUD.

Advantages:

First and foremost, the analysis fails to recognize with sufficient clarity the importance of the so-called "one-stop shopping" which would result from a reorganization that would unify economic development, community development The result would be a coherent and balanced and housing. approach to development that recognizes the interrelationship among places and the need for careful planning to minimize any potentially harmful effects of development. Moreover, this approach is the only candid response to the observations of local and State officials and the private sector that the distinction between economic development and community development is illusory, breaks down in practice and is inconsequential since most projects require a combination of these program tools (EDA, CDBG, SBA, FmHA). The artificiality of the purported distinction between economic development programs on the one hand and community development programs on the other is demonstrated by the fact that EDA has spent far more of its money on public works and community facilities ("community development") than on private sector economic development, while the Community Development Block Grant program is the source of considerable economic development and private job creation. I am certain your staff has available many case studies which point out the validity of this argument; however, I am attaching for your benefit a brief summary of several recent such projects with which we have been involved.

The proposed DA is the only one that responds to the criticisms of local officials and the private sector that, at the present time, private job-creating projects with the most potential are discouraged specifically because of the need to file different applications with several Departments and the attendant delay caused in packaging these complex projects. As a result, private sector clients already wary of locating in distressed urban or rural areas are unwilling to confront the wide variations in loan and grant forms or to wait on funding decisions by two or more separate agencies.

Moreover, only creation of a DDA is consistent with the findings of recent research on business decisions, including the Rand Corporation's widely hailed study, that stress the importance to business of the condition of community facilities and housing in making locational and investment decisions. Finally, only a DDA, which could firmly tie economic and community development and housing under one agency roof, is consistent with Congressional expressions of the need to tie new employment opportunities to new and existing facilities, infrastructure and other resources.

There are, of course, other compelling reasons for a DDA which I believe the memorandum does not highlight adequately, including: an end to variations in planning and application requirements; the creation of a forum for the formulation of balanced subnational development strategies and the placement of rural development programs and policy responsibilities in a department with a development focus, rather than an agricultural or "farm" mission.

Disadvantages

My most serious objections are reserved, however, for the statement of purported disadvantages of the DDA set forth on pages 17 and 18 of the memorandum. I shall not dwell on the statement that EDA is considered by many "as responsive and efficient" since I am one of those who believe that the redirection of EDA effected under Secretary Kreps' leadership is worthy of public appreciation. However, the charge that HUD is slow moving, particularly in the area of community and economic development, is unwarranted in view of the experience of this Department in the last 23 months.

As you know, each Block Grant entitlement application is either approved, rejected or conditioned within 75 days of receipt of the application. The UDAG program, which only

began in FY 1978, and which requires that there be firm private sector commitments leveraged by any grant, is probably the largest "pure" economic development program in the Federal arsenal. Every applicant receives a decision on funding within 90 days of submission of the UDAG application. Those who call this record slow moving would do well to spend some time, as I have, with the Chief Executive Officers of the largest manufacturing, retailing, financing corporations in this country and hear their praise of the speed and private sector "transactional" emphasis of the UDAG program. As you may know, in just eight short months, UDAG grants totaling \$490 million have been awarded which we expect will generate approximately 210,000 private sector jobs and levarage almost \$3 billion in private investment while at the same time preserving the environment, providing decent wages for laborers and furthering the opportunities of the poor and disadvantaged.

The memorandum also errs in citing with approval contentions that the DDA would break the potential organizational link between economic development in a new Department and micro-economic analysis, which would remain at Commerce. This argument is without merit. The majority of industry policy tools presently in Commerce, but outside of EDA, take the form of information resources which could be made available across departmental lines. As you know, it is generally easier to achieve coordinated information across departmental lines with respect to data and analytical reports than to package grant and loan applications for complex projects which involve multiple sources of funding or to synchronize detailed program procedures and delivery systems. Further, there currently exists no links in Commerce between its micro-economic analysis and EDA's funding decisions. Moreover, the causes of economic decline go well beyond the microeconomic problems of particular industries. Policies addressed to these industries will not overcome the lack of infrastructure affecting many rural areas, the combination of changes in transportation or production technology or the deterioration of basic physical plants and neighborhoods which account for many of the problems of older cities. These problems require first and foremost a coordinated application of the broadest set of development tools, including economic and community development and housing. Moreover, micro-economic problems typically require a task force approach since so many of the relevant policy instruments lie in other Departments or the regulatory agencies. Finally, the most important requirement

in the area of industrial policy is for a strong, objective, analytical capacity. In fact, if a capacity of this type is housed in a Department which has promotion and protection responsibilities, the objectivity of the analysis may well be questioned.

The memorandum then questions whether HUD, with its "reputation for excessive regulation and excessive tilt toward social goals." would dilute EDA's business focus and whether economic development would be subordinated to housing concerns in a new DDA. This statement does not reflect any considered thought of the issue. First, the socalled regulatory and social goals are in every case required I am also certain that EDA has similar affirmative action, environmental and prevailing wage requirements; therefore, the only issue is whether one of the agencies has been less than vigorous in its enforcement of these requirements than the other. Careful review of the CDBG and UDAG programs will demonstrate that national objectives can be met while at the same time promoting private job creation and that housing is an equal and beneficial partner in achieving national community and economic development goals.

The memorandum next alleges that "some" argue that community and economic development assistance will not necessarily be integrated because community development funds still will be disbursed by formula while economic development funds will be distributed on a discretionary This statement ignores completely the root causes of the existing problem and the procedural reforms which can follow on the heels of a reorganization. Currently, State and local officials and the private sector are troubled, in putting together coherent strategies and in securing funding for complex projects that can create significant long term private jobs, by the diverse application and planning requirements, the disparate funding cycles and the varying responses provided by the five or more agencies that often provide development funding. The result can be delay, duplication, and a general unwillingness by the private sector to devote the time and effort required to convince several agencies that a single project meets their divergent Only the creation of the proposed DDA could resolve most of these problems by merging as many resources as possible in one area while still providing the flexibility advocated by those who believe that successful local development requires a combination of discretionary and entitlement authorities.

Finally, this section's closing remark, under the heading of "Advantages and Disadvantages" ["Reorganization always leads to short term disruption and cost..."], is perhaps the most confusing of all. Certainly, I do not take issue with the view that reorganization can lead to short term disruption and cost; yet, I question why the same argument is not made with regard to the proposal to create a Department of Commerce and Economic Development. Specifically, in the case of a new DDA, staff from EDA, FmHA, CSA and SBA would move, while for the DECD option, staff from HUD, FmHA and SBA would be forced to move. The difference in permanent positions would be only several hundred; accordingly, short term disruption and cost will occur under either option. Moreover, this remark ignores the fact that creation of a DDA would result, by your estimate, in substantial staff savings and cost reductions six times larger than any other option under consideration, including a DCED.

Alternative 2. Consolidate economic development programs in Commerce leaving community development and housing programs in HUD and FmHA

The analysis of the proposal to create a DCED has several shortcomings. First, the memorandum fails to address adequately the fact that the proposal would serve to increase, rather than decrease, fragmentation among development programs. The President directed the Reorganization Project to undertake a review of "the major Federal local development programs." Clearly, he did not envision the study would address only what purportedly are economic development programs and ignore completely community development and housing programs; yet, the proposal to create a DCED would expand on and, indeed, increase the current artificial distinction between "economic development" and "community development," and at the same time, would make no effort to integrate disparate "community development" programs now located in HUD and FmHA.

Second, the memorandum continues the fallacy, listed on page 20 of the memorandum, that EDA's programs are somehow "business assistance" or strict economic development programs, while programs such as FmHA's community facilities and HUD's CDBG are merely community development programs. Nothing could be further from the truth.

As I stated previously, more EDA funds have been spent on public facilities than on business assistance, and most of these funds have gone to public entities. Even assuming only 10-15 percent of CDBG funds go to economic development, the total, some \$500 million, still makes the CDBG program one of the largest economic development tools in the Federal arsenal and accounts for almost as much economic development lending as all of EDA. Moreover, this total is continually increasing and under the CDBG program, funds can be used for everything for which EDA funds can be used. An examination of the attachment to this letter provides more than adequate evidence for this argument.

These facts should demonstrate to you quite graphically the error of typecasting EDA and even UDAG as strictly business assistance programs and CDBG or specific FmHA programs as community development programs. All of these programs can be used flexibly and interchangeably, with community development programs frequently serving economic development purposes, by clearing land, providing long term financing, constructing basic infrastructures and supporting local development capacity. The analysis on pages 20-21 of the memorandum fails again to recognize that most development projects involve a combination of public facilities investment, business assistance and housing; that local officials and the private sector find the purported distinction between community and economic development functions to be unfounded and naive; that constituent groups have called for better coordination among these programs; that the Conference of Mayors recently merged its committees on community and economic development because of the obviously close relationship; and that even General Motors, in a recent study of its job promotion and development efforts in Detroit, has found that a narrow emphasis on job promotion is misplaced and that it should focus on a comprehensive development effort for Detroit.

I must also point out that the memorandum's analysis of the disadvantages of the Department of Commerce and Economic Development ignores repeated past reassertions by Congress of the importance of linking economic development and community development which appear in such disparate pieces of legislation as the original EDA legislation, the 1972 Rural Development Act and the 1974 and 1977 Housing and Community Development Acts, as well as the fact that the proposal would continue the confusing division of responsibility for development problems of lagging areas among three

Cabinet departments, each of which would have significant responsibilities, none of which would have all the necessary tools. Apparently, the Congress has recognized repeatedly, as we should now, that economic development in terms of private sector job creation cannot succeed unless it is integrated closely with community development programs.

I also believe the statements I have made on pages 7-8 of this letter demonstrate the fallacy of the argument that so-called economic development functions should be moved to Commerce simply because of its ability to perform micro-economic, sectorial or trade analysis. I shall only add at this time that perhaps issues of trade promotion could be addressed best by a reorganization of functions now performed by STR, Export-Import Bank, Treasury, State and SBA, without attempting to combine in one Department the very different responsibilities of place-specific development programs.

Furthermore, although I stand ready once again to place the resources of the Department squarely in support of the proposal for a National Development Bank, we must recognize the almost overwhelming difficulties we will face in securing its approval by the Congress. Nor do I believe the EDA reauthorization should be a factor in a reorganization since this would result in the proverbial tail wagging the dog. Incidentally, the reauthorization next year of the CDBG and UDAG programs, because of their size and dual nature, appears to be a much more logical point at which to undertake consolidation, since a decision regarding structural reorganization will have been made. As a result, the proposals to reorganize local development programs should, in large part, ignore the Bank and the EDA reauthorization and should instead be guided by the general principles I have outlined herein.

Other Alternatives Considered

(a) Seek Procedural Change

As I have previously stated, only creation of a DDA fulfills the President's commitments to streamline Federal development efforts. Moreover, it is the only structural option worthy of the political battles and disruption that will follow. Clearly, the alternative of procedural change has the obvious advantage of avoiding the political battles and disruption that would accompany any structural reorganization. Procedural change after reorganization will still

be useful to improve coordination and tie together the programs of a DDA and the very relevant programs of, among others, DOL, DOT and EPA. However, without reorganization and creation of a DDA, procedural change alone has several drawbacks, most of which I believe the memorandum acknowledges.

First, coordinating devices often tend to be fragile and highly dependent on personalities and involvement of the relevant staff. This is particularly the case because the problems under consideration are deeply rooted in ongoing operations, procedures and styles and are difficult to change without constant pressure. Several previous efforts to achieve significant reform through this effort have met only limited success. Moreover, interagency committees consume valuable time of top agency management and staff and the more similar functions must be coordinated, the more wasteful the expenditures of time. Such efforts should be targeted on those projects or issues which merit special attention. Furthermore, many of the most important coordination problems arise in the field, and it is precisely field level coordination that has proved most difficult to achieve across agency lines. Finally, even if coordination were effective, it would still leave a costly and wasteful organizational and programmatic structure.

Instead of being looked on as alternatives, coordination and reorganization are necessary complements to each other. Indeed, coordination is far easier and more effective if roles and responsibilities are clear at the outset -- an objective only a DDA is likely to achieve.

(b) Create Separate Departments of Urban and Rural Development

This option, like the proposal to create a DCED, would increase fragmentation by perpetuating a hazy definitional distinction between urban and rural locales. As a result of recent population shifts from center cities and suburban areas of SMSAs to new SMSAs, it is increasingly difficult to differentiate between the development problems of urban and rural areas. Moreover, the legitimate issue of providing an adequate focus to rural needs could be resolved adequately by organizing DDA in a manner which will focus satisfactorily on those needs.

This option also would reduce our chances for developing policies and programs which recognize the interdependence between places of different sizes and locations, would perpetuate a murky area of coverage on the borders between the two agencies and would divide and make poor use of scarce technical talent which would have to be replicated in two separate agencies. In summary, this proposal, like the proposal for a DCED, would be a step backward for the Administration.

(c) Create a Broader Department of Development Assistance

I believe that any consideration of the issues raised by this proposal is premature and should await experience with a DDA.

Summary

In closing, I would like to comment briefly on the political advantages and disadvantages of each of the proposed options. A failure to make a significant structural change entails a risk that our Administration, which was elected on a commitment to reform and reorganize the government, will be perceived to have failed to act decisively in an area of critical importance to most Americans. The importance of this commitment can be underscored by the widely accepted belief that in view of the creation of a new Department of Energy and the proposal for a new Department of Education, the Administration should consolidate in one department as many as possible of the duplicative and overlapping local development programs now situated in HUD, Commerce and Agriculture.

Clearly, the difficulties of securing approval of a reorganization which would affect more than one Congressional Committee cannot be minimized, and unless we anticipate an agreement by the Banking, Public Works and Agriculture Committees that a reorganization which might be seen to increase the authority of one of the three relevant Departments at the "expense" of two other Cabinet Departments -- an unlikely agreement -- all of the proposed options will provoke controversy in the Congress. Nevertheless, I see no basis for distinguishing between the proposals for a (1) DDA; (2) DCED; or (3) separate urban and rural agencies simply on the grounds that opposition on the part of one or

more of the relevant Committees (Agriculture, Banking, Public Works) can be expected, since each of the proposals may generate opposition from two of the relevant Committees, and since the Government Operations Committee will play a major role in the consideration of any reorganization.

Moreover, I believe we can expect significant support from constituent groups, from States and local officials and from the private sector if we propose a reorganization which can truly be expected to make significant improvements and realize substantial savings in our local development efforts—namely creation of a DDA.

Accordingly, I would urge the following approach: (1) a decision by the President as to whether a DDA should be proposed or, in the alternative, whether the reorganization and legislative agenda of the Administration is such that no reorganization proposal should be sent to the Congress this year; and should the President decide to propose a DDA, (2) a massive effort to publicize the benefits of the proposal.

Sincerely yours,

Patricia Roberts Harris

Attachments

Summary of HUD Position

Local Development Reorganization Proposal Should:

- Recognize that nation will continue to experience a variety of development problems and needs which have significant national implications;
- 2. Recognize that in order to respond effectively and efficiently to these local development problems, an integrated place-specific local development approach is necessary;
- 3. Support a place-specific integrated development approach with
 - a. A critical mass of resources; and
 - b. Clear coordination of development of private sector jobs with development of community facilities, infrastructure and housing.
- 4. Recognize that only the proposal for a Department of Development Assistance meets these criteria and fulfills commitment to "new partnership" by
 - a. Providing one-stop shopping;
 - b. Recognizing artificiality of distinction between major economic and community development programs, including EDA, which has spent more of its funds on public works and community facilities than on business assistance, and CDBG, which now supports significant economic development programs and is one of the largest economic development tools in the federal arsenal;
 - c. Assuring consistency with research findings on business decisions that stress importance to business of condition of community facilities and housing in making locational and investment decisions;

- d. Acknowledging that housing plays a critical role in local development strategies;
- e. Recognizing that a micro-economic analysis need not be placed in an development agency; and
- f. Realizing that short-term disruption will occur under any reorganization.
- 5. State explicitly that all other proposals, particularly the proposal for a Department of Commerce and Economic Development, would increase, rather than decrease, fragmentation among development programs and would be viewed as a step backward:

a. DCED -

- (i) Expands artificial distinction between so-called economic development programs and so-called community development programs;
- (ii) Ignores the fact that community development programs frequently serve same purpose as economic development programs and vice versa; and
- (iii) Ignores repeated requests by local officials and the private sector for closer coordination between economic and community development programs and housing, as well as Congressional expressions of need to tie together these programs.

b. Procedural changes -

- (i) Too fragile and highly dependent on personalities;
- (ii) Consumes too much valuable time of top management and staff;

- (iii) Ignores fact that most important coordination must occur in the field; and
- (iv) Procedural change should be viewed as complement to reorganization.
- c. Separate Departments of Urban and Rural Development -
 - (i) Increases fragmentation between areas and fails to recognize changing status of non-SMSAs or interdependence of urban and rural areas; and
 - (ii) Rural and small city concerns and needs, which have been overlooked for too long, can be given adequate focus and attention in new DDA by structural proposals designed to respond to rural needs.
- 6. Inform President in the options paper that DDA is only proposal which will meet President's commitments and respond comprehensively to complaints, that the real alternative is between no reorganization and a DDA and that the critical issue is whether Administration is prepared to make political commitment to support proposal for a DDA.

Attachment

Examples of UDAG and CDBG Coordination and CDBG as an Economic Development Tool

1. Compton, California

Compton, California has received an Action Grant to finance a non-profit manufactured housing corporation to train and employ low-income persons, primarily minorities, and provide new housing for the city. Entering into a joint venture with a firm involved in proven modular housing techniques, the city will develop a new non-profit corporation to establish a permanent new business. The project will take an abandoned factory and rehabilitate it for use by the corporation. Action Grant funds: \$2.19 million for a loan and grant to the non-profit corporation, land acquisition, and a construction loan guarantee. Other Federal funds: \$783,254 in Comprehensive Employment and Training Act funds, \$10,000 in Economic Development Administration money, and \$300,000 in HUD Block Grant funds. Private sector commitment: \$7.0 million. New permanent jobs created: 108.

2. Pawtucket, Rhode Island

Pawtucket, Rhode Island has received an Action Grant for an industrial, commercial and residential project using the site of the Narragansett Race Track. The land will be acquired, sites prepared, roads constructed, utilities installed and then parcels will be sold one at a time to private developers. The project will include 45 acres of commercial, and eight of residential developments, with 200 units of housing. Action Grant funds: \$5.9 million for acquisition and site improvements. Private sector commitment: \$42 million for land purchase and construction. Other Federal funds: \$425,000 in HUD Block Grants. New permanent jobs created: 3,870.

3. Charleston, South Carolina

A UDAG grant of \$4.1 million for a downtown hotel convention complex was helped along by using \$459,000 of CDBG funds for planning and the creation of infrastructures, i.e., water and storm drainage, utility relocation, parking lot resurfacing and a beautification program. The city also will use \$40,000 of CDBG funds to provide small businesses with development loans in the UDAG area.

4. Detroit, Michigan

Detroit is utilizing the UDAG program, in conjunction with \$6.5 million from its CDBG program, to further stimulate the City's economic development. In April of 1978, a \$1.2 million UDAG grant to support expansion of three industries was approved. In October of 1978, the Washington Boulevard Corridor project (commercial mall) was approved for approximately \$5 million. The project directly supports the downtown revitalization plan, and will provide new market rate housing and 308 new jobs, as well as commercial and parking facilities.

5. Gadsden, Alabama

A \$1.3 million UDAG grant to renew the CBD will be used to acquire and clear land, build parking lots, renovate vacant buildings and correct the traffic plan. The city has tied in \$1.6 million of CDBG funds with the UDAG for physical improvements designed to keep families in the adjacent residential neighborhoods.

6. Greenville, South Carolina

A \$5.5 million UDAG for a hotel, convention center, garage and office building is tied in with \$812,000 of CDBG funds used for acquiring property, relocation, and clearance of the hotel site. The city also will make \$52,000 of CDBG money available for a loan pool to assist commercial development in the UDAG project area and \$150,000 of CDBG for physical improvements in the project area.

7. Los Angeles (City), California

1. Downtown Redevelopment Project-CBD

The city has used \$3.7 million of its Block Grant to support this project. A major portion was spent in planning.

2. Los Angeles Industrial Park (Wilmington Industrial Park) Harbor Development

CDBG Funds -- \$750,000 first 2 years of program.

3. Jewelry Mart Project--Within the Downtown Redevelopment Area

UDAG Funds -- \$4.7 million

4. Wholesale Produce Market--On the Fringe of the Downtown Redevelopment Area

UDAG Funds -- \$8,233,000

5. Pico Union 1 Project--Commercial Retail Facility

<u>UDAG Funds</u> -- \$635,000 acquisition, demolition and site improvements

<u>CDBG Funds</u> -- \$965,000

8. New Orleans, Louisiana

New Orleans has five types of Community Development Activities which are addressing economic development with CDBG funds.

- 1. Bonding--working capital and technical assistance for Low/Moderate income contractors--\$75,000.
- 2. Financial Loans for Local Development Corporations--\$1,000,000.
- 3. Property Acquisition for Economic Development--\$500,000

- 4. Commercial Infrastructures Improvements--\$325,000.
- 5. Commercial Revitalization Supportive Services--\$75,000.

The City of New Orleans has recently received a UDAG grant for the expansion of the Todd Shipyards. This area is adjacent to a Community Development Neighborhood in which Low/Moderate income persons work in shipyards. The expansion of the shipyard will increase jobs for people in the community development neighborhood.

9. New London, Connecticut

Over \$3 1/2 million of CDBG funds have been spent since FY 1976 on the revitalization of certain areas of the CBD. They have been used for street paving, sidewalks, public utilities, spot demolition, structural facades, and rehabilitation grants. Many buildings have commercial facilities on the first floor and residential on the upper floors. The CDBG activities, combined with Section 312, and Section 8 substantial rehab, have turned around a depressed section with this revitalization. There has been housing rehab on the outskirts of the area, using CDBG funds.

A UDAG grant was announced on July 11, 1978 of \$225,000, releasing some \$2 1/2 million in private funds, mostly from the New London Institute of Savings. The Institute proposes buying abandoned structures on Star Street which abuts Bank Street, rehabilitating them and selling them. The UDAG funds will be used for street improvements and public utilities.

10. Orange, New Jersey

The City of Orange, New Jersey is utilizing an Action Grant of \$425,000 for storm drainage construction to help alleviate flood hazards. This will allow a printing company to acquire an unused facility for expansion purposes. The flood improvement is adjacent to, and therefore affects, contiguous land the City is acquiring with its block grant funds to assemble marketable industrial parcels and rehabilitate existing abandoned industrial property.

11. Seattle, Washington

The City of Seattle so far has spent \$120,000 of CDBG funds for physical improvements, i.e., relocating facilities, in connection with their UDAG project. More funds will be expended for this same purpose in the future. The UDAG grant is in the amount of \$1.5 million.

12. Wilmington, Delaware

UDAG - \$1,500,000 -- For financing of construction of a hotel as a complement to the downtown Urban Renewal efforts.

CDBG - \$500,000 -- For site improvements and completion of renewal activities.

13. Buffalo, New York

The City of Buffalo is utilizing some \$4.0 million of its most recently approved CDBG entitlement grants for economic development by undertaking the following activities:

- 1. Industrial land assemblage (\$1.0 million) -There will be needed within the next five
 years some 300-400 acres to accommodate
 industrial development. The city presently
 has about 15 acres. EDA is adding \$4.0
 million: private funds: \$10.0 million.
- Industrial financing (\$1.0 million) -- Block grant funds are being integrated with existing industrial lending program to provide a highly focused and visible program for industrial financing.
- 3. Development of a CBD non-manufacturing base (\$2.0 million) -- City is developing a business-service-oriented downtown by: (a) building a convention center hotel (financed with UDAG funds), and (b) by developing an entertainment district.

14. Butte, Montana

From its FY 78 CDBG entitlement, the city is using \$80,000 for construction of a loading dock and provision of interim operating funds to a beef packing concern.

15. Charlottesville, Virginia

Charlottesville has programmed approximately \$10,000 of its FY 78 small cities grant for use by a local development corporation for redevelopment of the Starr Hill area of town.

16. Dayton, Ohio

Dayton will use \$1,153,000 in CDBG funds (about 15% of its FY 78 grant) for an Economic Development Loan Program. The fund provides loans to companies who need this opportunity to expand their facilities. The primary objective of the program is to increase the low and moderate income private sector job base.

17. Denver, Colorado

From its FY 78 CDBG entitlement, the city is using \$100,000 for an analysis of the economic development potential of the Five Points Area and production of a revitalization plan and strategy.

18. Helena, Montana

From its FY 78 CDBG entitlement, the city is utilizing \$500,000 for construction of water and sewer lines for the development of a 15 acre industrial park.

19. Ketchikan, Alaska

The Ketchikan Gateway Borough is an economic development activity using \$200,000 of Community Development Block Grant funds. The program will consist of the construction of 178 feet of dock frontage and accommodations to enable a marine maintenance program to take place during the winter, efficient servicing of the salmon fleet and cruise ship fleet during the summer, and possible homeporting of a fleet of larger (outside waters) fishing vessels. It will stimulate retail trade, develop the marine education program of Ketchikan Community College, and decrease Native unemployment.

20. Lewiston, Maine

Under the Model Cities program, the City began in 1972 through a modest effort to create an industrial park. Since 1975, under the CDBG program small amounts have continued the effort. Eighteen (18) small firms have located there, providing some 300 permanent jobs. In tandem with this effort CDBG funds in 1978 were used to set up a revolving fund, \$300,000 of which were put into an Economic Stimulus Loan Fund which has made one loan of \$200,000 to keep an industry in town; it had proposed leaving with it the loss of 400 jobs. While not in the industrial park, this firm was able to acquire capital items in order to modernize and remain competitive. The success of the industrial park is such that the voters recently authorized the City to issue bonds in order to add acreage and public improvements to the tract, attracting additional industry.

21. Littleton, Colorado

The City is using \$450,000 of its Small Cities grant for acquisition, relocation and rehabilitation of riverfront industrial facilities.

240 new jobs to be created.

22. Memphis, Tennessee

\$1 million of CDBG money is being used as a loan guarantee to rehabilitate the historic Peabody Hotel, \$2 million to restore the exterior of buildings in the historic Beale Street area, and \$500,000 for a small business investment company to provide seed money for new businesses in the Beale Street project. (This project also includes \$5 million of other federal funds for site improvements.)

23. East Chicago, Indiana

East Chicago has received an Action Grant of \$400,000 to be used as a first-mortgage to assist an SBA 502 Local Development Corporation in the development of a "mini-mall". The mall, which would be owned and operated by the LDC, will be located next to a pedestrian walkway currently being constructed with CDBG funds in a neighborhood commercial area within the Indian Harbor Urban Renewal Area. This is a minority area in which the city has undertaken a number of development activities. Action Grant: \$400,000. Private commitment: \$610,000. New permanent jobs: 97.

24. Lynn, Massachusetts

Lynn, Massachusetts has received an Action Grant to acquire seven, eight-story loft buildings in an industrial area adjacent to the central business district. The project will provide housing for the elderly on the top four floors (188 units of Section 8 and 160 units of market rent), and utilize the lower four stories for light industrial facilities. Private investment of over \$13 million in housing rehabilitation, industrial, and commercial uses will be leveraged. Grant funds: \$3.3 million for acquisition of land and buildings, parking acquisition, relocation, and skywalks between the buildings. Private commitment: \$13 million. Other funds: \$2,000,000 in Community Development Block Grant funds. New jobs created: 737. Jobs retained: 741. Construction jobs: